AUDITOR GENERAL
Alberta

Annual Report of the Auditor General of Alberta

2006–2007

Volume 2 of 2

Volume 2—ISSN 1703–7166

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Volume 1

We published Volume 1 separately. It contains a snapshot, recommendation highlights, acknowledgements, our major systems audits, 2006–2007 recommendations list, and topics involving more than one ministry.

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Volume 2—ISSN 1703–7176

Audits and recommendations

Advanced Education and Technology

Summary: what we found in our audits

Performance reporting

Our auditor's reports on the financial statements of the Ministry, Department, Alberta Research Council, iCORE Inc., and the Access to the Future Fund are unqualified.

We found no exceptions when we applied specified auditing procedures on the Ministry's performance measures.

Other entities that report to the Minister

- Systems—University of Calgary
  The University of Calgary should:
  - implement an Information Technology (IT) governance and control framework—see page 10.
  - improve controls over payroll functions—see page 12.

  The University's progress implementing some of our previous recommendations was unsatisfactory. We therefore repeated our recommendations on:
  - improving controls in its PeopleSoft ERP (see glossary—ERP) systems—see page 13.
  - improving controls over sponsored research and trust accounts—see page 15.

- Systems—Grant MacEwan College
  We repeated our recommendation that the College should improve its financial processes and controls to increase efficiency and accuracy in financial reporting—see page 18.

- Systems—Grande Prairie Regional College
  The College should improve its financial processes and controls over financial reporting with the goal of increasing efficiency in preparing accurate internal and external financial reports—see page 20.

- Systems—Alberta College of Art and Design
  The College should improve its systems by strengthening internal controls for computer system access and server backups, and developing a computer use policy—see page 21.

- Systems—University of Lethbridge
  The University should implement an information technology control framework—see page 23.

- Systems—University of Alberta
  The University should obtain assurance that its IT service provider maintains security configurations for the outsourced services as contracted—see page 24.

- Performance reporting—post-secondary institutions and other entities
  Our auditor's reports on the financial statements of post-secondary institutions listed in 3.2 of the Scope section are unqualified.

- Performance reporting—other entities
  Our auditor's reports on the financial statements of the Alberta Heritage Foundation for Medical Research, Alberta Foundation for Health Research, and Alberta Heritage Foundation for Science and Engineering Research are unqualified.

Overview of the Ministry

The government created the Ministry of Advanced Education and Technology by combining the former ministries of:

- Advanced Education
- Innovation and Science

The Ministry includes the Department of Advanced Education and Technology, Alberta Research Council, iCORE Inc., Access to the Future Fund, and public post-secondary institutions.

In 2006–2007, the Ministry spent approximately $2.5 billion. The largest expenses were:

	(millions of dollars)
Assistance to post-secondary institutions	1,678
Post-secondary facilities infrastructure	395
Support to post-secondary learners	110
Support to build innovation capacity	92

For more information on the Ministry, visit its website at http://www.advancededandtech.gov.ab.ca/.

Scope: what we did in our audits

1. Systems

We examined the Department's systems for monitoring private post-secondary institutions and vocational schools.

We followed up our previous recommendations on student loans, affordability of the learning system, and the tuition fee policy.

2. Performance reporting

We audited the financial statements of the Ministry, the Department, Alberta Research Council, iCORE Inc., and the Access to the Future Fund for the year ended March 31, 2007.

We completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

3.1 Systems—post-secondary institutions

We followed up on our previous recommendations after management had sufficient time to implement the recommendations.

3.2 Performance reporting—post-secondary institutions

We audited the financial statements for the year ended March 31, 2007 of the following entities:

- Athabasca University
- University of Alberta
- University of Calgary and its subsidiaries/related entities, The Arctic Institute of North America, The University of Calgary Foundation (1999), and the University Technologies Group
- University of Lethbridge

We also audited financial information of the Olympic Oval/Anneau Olympique, operated by the University of Calgary.

We audited the financial statements for the year ended June 30, 2006 of the following entities:

- Alberta College of Art and Design
- Bow Valley College

- Grant MacEwan College and its related entity Grant MacEwan College Foundation
- Grande Prairie Regional College and its related entity Grande Prairie Regional College Foundation
- Keyano College
- Lakeland College
- Lethbridge Community College and its related entity Lethbridge Community College Fund
- Medicine Hat College and its related entity Medicine Hat College Foundation
- Mount Royal College and its subsidiary/related entities Mount Royal College Day Care Society and Mount Royal College Foundation
- Northern Alberta Institute of Technology and its related entities the Northern Alberta Institute of Technology Foundation and Fairview College Foundation
- Northern Lakes College
- NorQuest College and its related entity NorQuest College Foundation
- Olds College
- Portage College
- Red Deer College
- Southern Alberta Institute of Technology

3.3 Performance reporting—other entities

We audited the financial statements of Alberta Heritage Foundation for Medical Research, Alberta Foundation for Health Research, and Alberta Heritage Foundation for Science and Engineering Research for the year ended March 31, 2007.

Our audit findings and recommendations

1. Systems

1.1 Student loans

1.1.1 Designating programs as eligible—implemented

Background

In our *2004–2005 Annual Report* (No.15—page 82), we recommended that the Department of Advanced Education consistently use graduation and employment data, along with information on loan relief benefit grant overpayments, in deciding which programs will continue to be eligible for student funding.

Our audit findings

Department concluded on data needed

The Department implemented the recommendation by concluding on the data needed to make decisions on which programs are eligible for student funding, and ensuring staff have this information.

As part of the Pan Canadian Designation Framework, nine provinces and the federal government have adopted loan repayment and compliance with program administrative requirements as the eligibility criteria for student funding. Under this agreement each province decides which programs in their jurisdiction to designate as eligible, and other provinces and the federal government rely on their work. Programs that fail to maintain a 65% repayment rate for two years may lose their designation for student funding. Graduation and employment rates are used to monitor programs, but not to designate programs as eligible for student funding.

1.1.2 Department compliance tests—implemented

Background

In our *2004–2005 Annual Report* (No. 16—page 83), we recommended that the Department of Advanced Education:

- test and evaluate the risk of issuing excessive loans and loan relief benefit grants caused by inaccurate student eligibility information.
- automate the process it uses to decide if income variances are due to Department grants.

Our audit findings

Department evaluated, tested, and concluded on risk

The Department implemented this recommendation by estimating the risk of loan overpayments for the various segments of its loan portfolio, and testing the segments to evaluate its estimates. This testing determined which segments have the greatest risk of loan and grant overpayments.

The Department determined that it is not feasible to fully automate the process for deciding if income variances are due to its grants. Instead, it tests 20% to 25% of loans to the higher risk segments of the population annually.

1.2 Measuring the affordability of the learning system—implemented

Background

In our *2002–2003 Annual Report* (No. 31—page 223), we recommended that the Department of Learning (now Advanced Education and Technology) improve one of the core performance measures (public satisfaction with the affordability of the learning system) that reports its progress in delivering high quality learning opportunities.

This performance measure was based on the public's perception of affordability; it did not measure whether most Albertans could afford the learning system.

Our audit findings

New performance measure added that will be an indicator of affordability

The Department added a new performance measure of affordability in its 2007–2010 business plan: the ratio of total debt at graduation to income two years after graduation, with a target ratio of 36% for 2008. This measure can only be an effective indicator of affordability if students have appropriate access to student loans. The Department also took actions to improve access to student loans, such as relaxing restrictions on vehicle ownership and requirements for parental contributions.

1.3 Tuition Fee Policy

1.3.1 Measurement of results—implemented

Background

In our *2002–2003 Annual Report* (No. 32—page 224), we recommended that the Department periodically measure whether the tuition fee policy and its related programs are effective in making post-secondary education affordable to students.

Our audit findings

Department carried out a comprehensive review, developed an affordability framework, and developed a new performance measure

The Department implemented this recommendation through a review of the affordability of the advanced education system, the development of a new affordability framework, and adoption of a new performance measure for affordability.

The Department developed its affordability framework in response to the *A Learning Alberta* comprehensive review of the advanced education system. This review was carried out by a steering committee appointed by government, and included reviews of tuition rates, government funding, and the affordability of the system.

Tuition fees indexed to consumer price index

The Department also implemented a new tuition fee regulation limiting 2006 tuition fees to 2004 levels, effectively freezing tuition for two years, with annual increases indexed to increases in the consumer price index. The Department provided additional grant funding to post-secondary institutions to make up for the lost tuition revenue, thereby reducing institutions' reliance on tuition revenue.

Improved access to student loans

The steering committee found that student loan living allowances had not kept pace with actual costs. As part of the framework, the Department increased student loan living allowances by 14%, and relaxed restrictions on vehicles

owned by students and requirements for parental contributions to qualify for student loans.

Under the affordability framework, student loan allowances and government grants to institutions are to increase annually based on the consumer price index.

To evaluate the effectiveness of its initiatives, the Department is measuring the ratio of total debt at graduation to income two years after graduation. This measure is an indicator of students' ability to repay their loans, and should help the Department to identify when a further review of affordability should be carried out.

1.3.2 Tuition fee policy compliance—implemented

Background

In our *2002–2003 Annual Report* (No. 33—page 226), we recommended that the Department require public post-secondary institutions to comply with the tuition fee policy. We also recommended that the Department clarify the methodology for applying the policy.

The tuition fee policy at that time restricted tuition fees to 30% of the net operating expenditures, and set a fixed amount for annual average tuition fee increases. Compliance with this policy could only be measured more than a year after the related tuition revenues were set, when the net operating results for the year became available, and unclear instructions on allocating overhead caused variations in measurement.

Our audit findings

New tuition fee policy with a clearer methodology

In 2006, the applicable legislation was changed to remove the 30% restriction on tuition fees, and allow tuition fee limits to be set by regulation. The new tuition fee regulation restricts average increases in tuition to the increase in the consumer price index in the previous year. The new measurement methodology is clearer, and less subject to interpretation.

Department evaluates institution's compliance

Under the new policy, the Department evaluates compliance before tuition fees are published. Institutions also have to publish their expected tuition fee increases for the next four years and consult with student representatives at least twice a year to discuss planned increases.

2. Performance reporting

Our auditor's reports on the financial statements of the Ministry, Department, Alberta Research Council, iCORE Inc., and Access to the Future Fund are unqualified.

Qualified audit opinion removed

Last year, we qualified our opinion on the financial statements of the Ministry because it did not include the public post-secondary institutions. This year, we removed our qualification because the Ministry included the public post-secondary institutions using the modified equity basis of consolidation.

The modified equity method of consolidation is allowed as a transition to line-by-line consolidation, which will be required for the year ending March 31, 2009.

Net assets would have increased by $2.7 billion

Under line-by-line consolidation, the Ministry's capital assets would have been fully consolidated so net assets at March 31, 2007 would have increased by approximately $2.7 billion.

We had no exceptions on the specified auditing procedures report on the Ministry's performance measures.

3. Other entities that report to the Minister

3.1 Systems—University of Calgary

3.1.1 University of Calgary internal control systems—changed circumstances

Background

Internal control matters in other sections

In our *2002–2003 Annual Report* (No. 35—page 238) we recommended that the University of Calgary improve its internal control systems. In prior years, we highlighted internal control deficiencies that related to business practices when the University operated old (legacy) information systems. The University significantly changed its business and financial processes after implementing PeopleSoft an ERP (see glossary), in 2006 and abandoning many of its old systems. As a result, it redesigned many internal controls. Therefore, the University has substantially dealt with the specific issues noted in our *2002–2003 Annual Report*.

The University needs to continue to make improvements to its internal control systems. We will follow up these improvements through the University's progress in implementing the specific recommendations noted below.

3.1.2 Information technology (IT) governance and control framework

Recommendation No. 18

We recommend that the University of Calgary implement an Information Technology governance and control framework.

Background

IT governance is a structure of relationships and processes to direct and control an enterprise's IT goals. Responsibilities designed to achieve this are assigned to key officials, such as the President, Board of Directors, Chief Information Officer, and other stakeholders.

A control framework is a set of fundamental controls that must be in place to prevent financial or information loss in an organization. The controls highlight what needs to be done at various levels of the organization.

Criteria: the standards we used for our audit

The University should:

- closely match IT goals with business goals.
- establish a formal structure for deciding on IT investments that will ensure that IT solutions meet its expectations, are properly funded, and have adequate resources in place for ongoing support.
- establish rules for managing and reporting on risks.
- adopt an IT control framework and processes to monitor and mitigate risks.
- define duties and responsibilities for IT management, including those of the Board of Directors.

Our audit findings

Risks managed on an ad hoc basis

The University of Calgary IT Team understands the University's goals and the risks in trying to reach them. But it manages risks on an ad hoc basis. The University does not have a plan showing the IT projects it wants to invest in. It normally makes IT investments on an as-needed basis when funds are available, or when there is external pressure (such as special projects or grants) to invest in IT.

Governance and control framework help prevent weaknesses

In this year's and previous years' audits, we highlighted weaknesses related to access, change management, security, and IT continuity in the University's IT control processes. The University could have prevented or effectively managed deficiencies in IT controls with a sound IT control framework and good governance practices. The University has indicated that it is adopting a recognized framework of best practice approaches intended to facilitate the delivery of high quality IT services, as part of a comprehensive organization-wide IT control framework. To be effective, IT governance and the IT control framework need the support and involvement of the Board of Governors and senior management.

Implications and risks if recommendation not implemented

Without an appropriate IT control framework, the University cannot identify all risks to its IT assets, and cannot effectively manage or mitigate all risks. Nor can it show that it has done so. As a result, the entity cannot rely on its data, applications, or systems to provide complete, accurate and valid information. Ultimately, it cannot ensure that it meets its business goals effectively.

3.1.3 Controls over payroll

Recommendation

We recommend the University of Calgary improve controls over payroll functions.

Background

This year, the University implemented the payroll and human resource module in PeopleSoft. As a result, business processes were significantly changed and new payroll controls were implemented. We documented the new payroll system and tested key controls for our financial statement audit.

Criteria: the standards we used for our audit

The University should have adequate controls to ensure that it approves and properly monitors information on new employees, job termination and salary change information.

Our audit findings

Weaknesses noted

The following control weaknesses exist in the areas of new employees, job and salary changes, and termination control processes:

Poor termination controls

Termination controls

Of 25 terminations tested:

- One terminated employee continued to receive pay for four pay periods after her termination date. The University has not recovered $6,070 in overpayments to her.
- Four terminated employees did not return their access cards, which remained active when we finished our audit in May 2007.
- Four terminated employees did not return their SecureIDs, used to access the University's network. The SecureIDs remained active after their termination date.

Four former employees contacted payroll reception asking why they were still being paid after their termination.

Incompatible payroll functions

Payroll module access controls

Of 20 employees tested who have access to the payroll module, 5 have incompatible functions because they can create a new employee, enter and approve time.

Weak review of payroll information

Controls for new employees, employee changes, and payroll exception reviews

There was no evidence that supervisors had regularly reviewed information on new employees, employee changes, payroll exceptions or payroll summary reports.

Implications and risks if recommendation not implemented

Without adequate controls for payroll processes, the University risks inaccurate payments and fraud.

3.1.4 PeopleSoft security—recommendation repeated

We made this recommendation in our *2005 2006 Annual Report*, Volume 2—page 24. We have repeated this recommendation because the University did not take sufficient action to mitigate PeopleSoft security risks this past year.

Recommendation

We again recommend that the University of Calgary improve its controls in the PeopleSoft system by:

- **finalizing and implementing the security policy and the security design document, and**
- **ensuring that user access privileges are consistent with both the user's business requirements and the security policy.**

Background

In April 2004, the University started a three-year project to move several critical business and financial processes to PeopleSoft, an ERP (see glossary). In 2005, the general ledger and materials management modules moved into PeopleSoft, and the University started writing a security design document to outline the process and define the rules for granting users access to PeopleSoft. In 2006, the payroll and human resources modules were moved into PeopleSoft.

Criteria: the standards we used for our audit

The University should reduce the risk of unauthorized or inappropriate access to its programs and data by:

- implementing a comprehensive security policy and maintaining an up-to-date security design framework for the PeopleSoft control environment.

- controlling access to programs and data by defining and enforcing procedures to identify, authenticate and authorize the use of the University's systems.
- establishing procedures to ensure that only authorized changes are made to user accounts (additions, deletions, changes) and that they are made promptly.
- implementing an effective control process to periodically review the appropriateness of user access rights.

Our audit findings

Overall IT policy still required

With respect to developing and implementing the enterprise administrative systems security policy, an overall IT security policy is still required. The security policy for PeopleSoft should be a subset of the overall IT security policy.

Security design document not current

The PeopleSoft security design document was initially developed in September 2005. However, important sections of it are still incomplete or unimplemented. PeopleSoft assigns privileges based on "roles," which are logical groupings of individuals related to their type of work. The PeopleSoft security design document is not current because the roles listed in it are actually fewer in number than the actual number of active roles extracted directly from the system.

Some users with too many roles

We identified 172 users who were assigned more than 15 of 201 roles. Three of the 172 users had between 35 and 40 roles assigned to them. Users with too many roles may encounter conflicts of interests and incompatible job duties.

We found 644 users who could change historical PeopleSoft data without the system showing the changes. There is no supporting documentation or business reason to explain why so many users had this privilege, nor were there any other control processes over the assignment of this change authority.

In a sample selected from the list of terminated users from the previous 11 months, 3 people still had access to PeopleSoft, and their accounts had not been locked out.

Implications and risks if recommendation not implemented

Weak access controls to, and within, PeopleSoft may result in unauthorized access to confidential data, entry of an unauthorized transaction, and the accidental or deliberate destruction or alteration of data. Poor controls may also lead to the unauthorized release of confidential student or financial information. Therefore, the University may not be able to rely on the completeness, accuracy, or validity of the data produced by PeopleSoft.

3.1.5 Controls over Sponsored Research and Trust accounts—repeated recommendation

We made this recommendation in our *2003–2004 Annual Report*, page 257. We now repeat it because progress implementing the recommendation has not been sufficient.

Recommendation

We again recommend that the University of Calgary improve controls over Sponsored Research and Trust accounts.

Criteria: the standards we used for our audit

The University should:

- design and implement controls to ensure research and trust expenditures are appropriate and approved, and to prevent unauthorized overspending on research projects.
- have effective processes to ensure that reporting requirements of sponsors are met.

Our audit findings

Control weaknesses

Control weaknesses persist, though there was no evidence in the expenses we sampled that research expenditures were inappropriate. For example:

- Management confirmed they did not review overspent research and trust accounts throughout the year for compliance with the University's over-expenditure policy. At year end, management started a process to review overspent projects and seek approvals to meet University policy.
- The University's signing authority policy is deficient. The University allows principal investigators, researchers and research staff to approve purchase of goods and services, but its policy does not delegate signing authority to them. Only department managers, deans and directors have that authority.
- Timely reporting of spending to project sponsors did not occur for most of the year. The University caught up with reporting to sponsors in the last quarter of the fiscal year.
- Management confirmed they did not review the aged research-and-trust receivables listing. We found errors in it.

Implications and risks if recommendation not implemented

Without effective approval processes and enforcement of University policy, research and trust accounts may pay for non-allowable and improper expenses.

The University may lose funding for its research initiatives if it does not meet sponsors' requirements.

3.1.6 General computer controls—progress report

Background

In our *2005 2006 Annual Report* (Volume 2—page 20), we recommended that the University of Calgary strengthen the overall computer control environment by clearly defining the role and responsibilities of the Chief Information Officer (CIO) and resolving deficiencies in the following areas:

- defining standards
- strategic planning
- risk assessment and mitigation
- business continuity and disaster recovery planning
- day-to-day operations

Management actions

What the University did

We concluded that progress in implementing the overall recommendation was satisfactory. The following are examples of improvements the University made this past year:

- defined the CIO's roles and responsibilities. The CIO has developed a 4-year IT plan, and the University is monitoring compliance with the plan
- worked on developing a new Project Development Methodology (PDM). The PDM includes processes and procedures to ensure that applications and systems are properly designed, developed, implemented, tested and maintained
- developed and approved University of Calgary Information Technology Master Disaster Recovery Plan
- ensured that back up tapes are reasonably protected against physical security and environmental threats

What remains to be done

Below is a list of the improvements the University still needs to make to implement the recommendation:

- define and communicate the CIO's role and authority in the campus-wide IT strategy development, operations, and funding, not just central IT services
- better integrate IT requirements into the overall business planning process
- develop and document a complete IT risk assessment plan
- implement the new developed Project Development Methodology
- expand its Emergency Response Plan to cover all areas of the University, including IT, to create a Business Continuity Plan. It must ensure that the Master Disaster Recovery Plan supports the Business Continuity Plan
- complete the documentation of service level performance measures and then monitor them
- take appropriate steps to ensure that all IT users are aware of their roles

and responsibilities for internal controls and IT security
- ensure that policy on classification of business information assets is followed
- document and implement an organization-wide system for monitoring, logging, and responding to problems and incidents

3.1.7 Application development methodology—changed circumstances

Background

In our *2001–2002 Annual Report* (No. 44—page 207) we recommended that the University of Calgary implement a formal methodology to design, develop, implement, test, and maintain software applications.

Our audit findings

This year, we combined our testing of the application development methodology with our general computer controls and reported our findings in Section 3.1.6. In future years, we will no longer track this recommendation because we will continue to test and report on application development controls as part of annual review of general computer controls.

3.1.8 Management special investigation

Management investigating issue raised under Disclosure Protection Policy

On May 30, 2007, management informed us promptly of an investigation it had started on a number of journal entries processed by an employee at Campus Infrastructure. Management became aware that these journal entries may be inappropriate through a disclosure by an individual under the University's Disclosure Protection Policy. University Audit Services assisted management in the investigation.

Certain journal entries inappropriate

As a result of the investigation, management concluded that certain journal entries were inappropriate and corrected the University's records. The journal entries amounting to $5 million, related to inappropriate reclassification of costs between expense types, operating accounts and restricted accounts. This issue related to proper recording of transactions in the University's financial records; there was no loss of funds.

Management took appropriate steps

After reviewing the results of the investigation and discussing them with management, we concluded that the investigation was appropriate and followed the procedures in the University's Disclosure Protection Policy. Management and Audit Services have not finished the investigation—we will continue to monitor its progress.

3.2 Systems—Grant MacEwan College

3.2.1 Financial processes—recommendation repeated

We first made this recommendation in our *2000–2001 Annual Report* (No. 39—page 216). We have found, to varying degrees, similar issues every year since. We did note significant improvement in the last couple of years, but there was a regression this year.

Recommendation No. 19

We again recommend that Grant MacEwan College improve its financial processes and controls to increase efficiency and accuracy in financial reporting.

Our audit findings

Complete financial statements not produced timely

The College continues to experience difficulty in producing accurate financial statements within scheduled timelines. We started our year end audit of the June 30, 2006 financial statement audit on August 8, 2006. We expected that we would have draft financial statements at the start of the audit, or soon afterwards. On August 29, at our request, management provided us with an unfinished and unbalanced working copy of the financial statements. We received a partially reviewed updated draft on September 15, 2006, but we observed that some significant errors remained uncorrected. We finally received the first balanced and fairly complete set of financial statements on September 20, 2006.

Format and review of working papers needs improvement

One of the ways the College can improve effectiveness and efficiency is to improve the format and review of the working papers that management prepares to support the financial statement numbers. We identified some specific examples to management.

Other suggestions

Other suggestions we noted in page 217 of our *2000–2001 Annual Report* also continue to be relevant. The College should consider:

- significantly reducing the number of accounts in the general ledger; and
- how it can automate the financial statement preparation process. The current process is inefficient and can be prone to error because it relies extensively on manual processes. Developing an ability to produce reports directly out of the computer systems would allow for an easier and more accurate accumulation of financial data.

What remains

To implement the recommendation, the College should complete balanced, accurate and reviewed financial statements within scheduled timelines.

Implications and risks if recommendation not implemented

Without effective and efficient processes that ensure timely and accurate reporting of the College's financial information at a reasonable cost, the board or executive management may not have appropriate information to make decisions, or too much money may be spent preparing financial information.

3.2.2 Access to financial information

Recommendation—implemented

We recommended that management ensure that only employees requiring access to journal entries receive access.

Background

This recommendation resulted from our audit of the College's June 30, 2006 financial statements. The college has since implemented this recommendation.

In 1999, the College began to scan in all journal entries and supporting documentation. Originally this information was only accessible internally through a common hard drive. In 2002, this information was made available online through the College's Financial Services website. Because of the decentralized nature of the College, the online access was intended to allow access for all the departments that prepare journal entries.

Criteria: the standards we used for our audit

Confidential financial information, including journal entries and supporting documents should be restricted to those that require the information to perform their functions.

Our audit findings

Inappropriate external internet access to College and personal information

In August 2006, we attempted to access the online journal entries through an internet connection outside of the College and found that we had access to view and print all journal entries and supporting documentation dating back to 1999. We found that the supporting documentation included employee and student information such as credit card numbers, copies of cheques, signatures, addresses, as well as College information such as bank account numbers and deposit receipts.

Management promptly removed access

We were informed that access was open to external internet connections from 2002 to 2003. When Financial Services informed Information Technology Services about the unrestricted access, access to the journal entries was then limited to internet connections with a Grant MacEwan College network address. However, this still enabled students in the College computer labs to access the information. In July 2006, conversion to a new portal resulted in access to the journal entries to be open to an external internet connection once

again. When we informed Financial Services of the unrestricted access, Information Technology Services shut down the internet link immediately.

Update from our June 30, 2007 financial statement audit—we verified that access to journal entries on the internal network is properly restricted. In addition, the College has reviewed what type of supporting documentation is needed, and it no longer includes certain pieces of confidential information.

Implications and risks if recommendation not implemented
Confidential information could be obtained by dishonest individuals which could potentially impact the College's image and expose the College to liability risk.

3.3 Systems—Grande Prairie Regional College

Financial processes

Recommendation No. 20

We recommend that the Grande Prairie Regional College improve its processes and controls over financial reporting with the goal of increasing efficiency in preparing accurate internal and external financial reports.

Background
Management is responsible for preparing financial statements and accompanying notes and schedules in accordance with Canadian generally accepted accounting principles. In fulfilling this responsibility, management should have effective internal controls over financial reporting. The Controller prepares financial statements for the Grande Prairie Regional College (the College), the Grande Prairie Foundation, and the consolidated financial statements for the College and Foundation.

The Board receives:

- a budget for the upcoming fiscal year to approve, usually in March or April.
- annual audited financial statements in October to approve.

Criteria: the standards we used for our audit
The College should have effective processes and controls over preparing accurate and relevant financial statements and reporting financial information to the College's Executive and the Board on a regular basis.

Our audit findings

Management financial reporting

Management does not receive any financial reports during the year

Deans access the College's financial system to monitor actual expenditures against their respective budgets. The Vice President – Administration and the Controller monitor overall spending in the College. However, the Executive Committee does not receive any summary financial information or reports throughout the year to monitor expenditures, identify possible cost-overruns or surpluses, and reallocate spending or re-prioritize projects.

Processes and controls over financial statement preparation

Annual financial statements not timely and accurate

The College had trouble producing accurate financial statements within scheduled timelines. The College did not have draft financial statements available for us when we began the final phase of our audit fieldwork on August 21, 2006. However, we expected they would be available within a week or two. We received several updated drafts, but we observed that the cash flow statement remained unbalanced and other errors remained uncorrected. We did not receive the first balanced and complete set of financial statements until October 24, 2006.

Many adjustments processed after year-end

The College also processed a large number of adjustments after year-end. The lack of regular management reporting during the year could be the cause for this, as the staff and management do not identify and process required adjustments timely. This creates extra pressure for the Controller and her staff at year-end.

Implications and risks if recommendation not implemented

Without effective and efficient processes that ensure timely and accurate reporting of the College's financial information at a reasonable cost, the board or executive management may not have appropriate information to make decisions, or too much money may be spent preparing financial information.

3.4 Systems—Alberta College of Art and Design

IT Internal Controls

Recommendation

We recommend that the Alberta College of Art and Design strengthen internal controls for computer system access and server backups. We further recommend that the College develop a computer use policy.

Criteria: the standards we used for our audit

The College should:

- restrict access to change security rights for computer systems to systems or security administrators

- ensure each user has a unique user ID for computer systems and applications, and track changes made by each user
- restrict the ability to add or remove programs from computers to authorized individuals only
- complete backups of computer servers on a regular basis and store backups in a secure location. The backup restoration process should be tested on a periodic basis
- have a computer use policy that is enforced

Our audit findings

Weaknesses in IT controls

We reviewed the College's information technology (IT) controls for our financial statement audit and found the following weaknesses:

Improper access and sharing of user IDs

Access controls need improvement. For example:

- Four employees within the Finance department and one service provider can add and delete users as well as change access privileges for existing users. Also, three other employees share one user ID.
- Certain faculty staff members have the ability to add and remove programs from their computers. With this level of access it would be possible for these individuals to remove critical software and hardware from their computers, such as anti-virus protection software.

Improper storing and testing of server backups

Server backup procedures need improvement. For example:

- The College completes backups of their servers on a daily and weekly basis. However the backups are not securely stored at an off-site location. Instead, they are stored in the IT department on an employee's desk.
- The College has not tested the backup restoration process to ensure it is functioning appropriately to ensure the College can recover data in the event of a system failure.
- The College does not have documented procedures in place for completing, storing, or restoring server backups.

No computer use policy

The College does not have a computer use policy in place that defines acceptable use of the College's computer systems

Implications and risks if recommendation not implemented

Without sufficient access controls in place, unauthorized users may have access to the College's computer systems. In addition, insufficient procedures and processes for server backups, increase the risk that the College may not be able to recover data in the event of system failure. Without a computer use policy in place, there is a risk that employees may not understand acceptable and unacceptable use of the College's computer systems.

3.5 Systems—University of Lethbridge

IT Internal Framework

Recommendation No. 21

We recommend that the University of Lethbridge implement an information technology control framework.

Background

A control framework is a set of fundamental controls that must be in place to prevent financial or information loss in an organization. The controls highlight what needs to be done at various levels of the organization.

Criteria: the standards we used for our audit

The University should have a comprehensive Information Technology (IT) control framework that includes appropriately documented and implemented policies, procedures, and IT controls to safeguard its data and systems against unauthorized use, disclosure, modification, damage, or loss.

Our audit findings

IT Control weaknesses

The University does not have a documented information technology control framework. Because an IT control framework has not been implemented, policies, standards and guidelines were not properly documented, did not exist, or were not being monitored for compliance. For example:

Inconsistent use of security controls

- The University has not documented its information security policy and has inconsistently implemented its security controls. This resulted in poor virus protection, inadequate password controls, and poor user awareness of their security responsibilities. In addition, users of its public and student accessible computers are able to connect to computers that contain sensitive information.

No formal change management procedures

- The University does not have, or follow, documented change management procedures or update its IT configuration documentation as part of its changes.

Systems development not properly controlled

- The University could improve its management over IT projects. For instance, we noted examples where systems were being developed without adequate planning, testing, and adherence to timelines.

Implications and risks if recommendation not implemented

Without an appropriate IT control framework, the University cannot identify all risks to its IT assets, and cannot effectively manage or mitigate all risks. Nor can it show that it has done so. As a result, the entity cannot rely on its data, applications, or systems to provide complete, accurate and valid information. Ultimately, it cannot ensure that it meets its business goals effectively.

3.6 University of Alberta

3.6.1 Security configuration settings

Recommendation

We recommend that the University of Alberta obtain assurance that its IT service provider maintains security configurations for the outsourced services as contracted.

Background

The University has contracted with a service provider to provide a significant number of services under an Administrative Applications Management Services Agreement. Under this agreement, the information security controls agreed to by the University and the service provider are defined within an Information Security Controls document. The document also specifies that 'health checks' will be conducted periodically by the service provider to verify that the security controls that were in place at the contract start date are maintained.

Criteria: the standards we used for our audit

The University should have controls to ensure that the service provider implements and maintains agreed-to security configuration settings, and ensure the accuracy of the reports used to confirm the correctness of these settings. In addition, the University should conduct timely reviews of the system-generated security configuration settings implemented by the service provider.

Our audit findings

Security configurations not consistent with the agreement

A comparison of security configuration parameters in the Information Security Control document, and the settings tested, and reported, through the 'health check' report prepared by the service provider, revealed a number of differences. For example, the health check report prepared by the service provider used parameters of 6 characters and 126 days for testing the actual settings for password length and expiry, whereas the document listed the requirements for these settings as 8 characters and 90 days respectively. The use of differing security settings for generating system health reports results in generating data that may not meet the University's security needs and may result in the service provider not complying with the contract. In addition, the service provider is required to report deviations from the document, however, because these deviations were not detected during recent 'health checks' executed by the service provider, they were not reported.

University should improve its monitoring of the agreement

The University did not review these status reports on a timely basis. Evidence of 'health checks' performed by the service provider should be requested at least on an annual basis. These reports should be reviewed by the University against key information security controls defined within the Information Security Control document to ensure that the control settings are in compliance with the agreed information security controls.

Implications and risks if recommendation not implemented

Deviations from agreed-to security configuration settings may reduce the effectiveness of established information security controls. In addition, without regular, timely review of the status reports, the University may be unaware of reported deviations.

3.6.2 Internal control systems—progress report

Background

In our *2002–2003 Annual Report* (No. 34—page 235) we recommended that the University of Alberta improve its system of internal control.

Management actions

In prior years, we recommended that the University adopt a strategy to modernize and significantly improve its control systems. We concluded that the University has made satisfactory progress. The process to modernize its control systems is a significant undertaking of the University: it has been ongoing for a number of years and is still a multi-year process.

University has developed a widely accepted Internal Control Framework model

We previously stated that, as a first step, the University should determine the business model or models to use in assigning responsibility and authority for the implementation and enforcement of control processes. Management has adopted a relevant model, as it has developed a widely accepted Internal Control Framework model.

New policies and procedures developed

The University continued to make progress improving its system of internal control. For example, the University developed a number of policies and procedures at the entity level and at the process level, such as the fraud policy, and procedures on allocating the purchase price of significant property acquisitions. These policies and procedures will help ensure consistency of application in all areas of the University.

Control assessment templates being provided to faculties

Management, with help from Internal Audit Services, has distributed a control assessment checklist to certain faculties to learn what controls and processes they have in place and who performs those controls and processes. This will let management better assess the control environment at a faculty level and decide what improvements are required. Management plans to have 85% of the checklists completed within a few months. Feedback from these

completed checklists will help focus and facilitate improvements in processes and controls at both faculty and department levels.

What remains

To finish implementing this recommendation, the University must fix the remaining gaps and deficiencies in internal controls identified in our original recommendation, such as: improving controls over authorization of paying invoices and setting up employees on payroll system; implementing a new capital asset module; and finishing implementing the business resumption plan and disaster recovery plan.

3.6.3 Net assets—implemented

Background

In our *1999–2000 Annual Report* (No. 36—page 228), we recommended that the University of Alberta determine the level of net assets that will be required on an ongoing basis to ensure that programs and facilities are supported and will continue to be supported.

Our audit findings

The first step to implementing this recommendation was to eliminate the net asset deficit, which the University did in 2005. The University finished implementing this recommendation by developing information and strategies for issues such as: ongoing maintenance and replacement of infrastructure assets; human capital deficiency; and maintenance of the purchasing power for internally funded endowments.

3.7 Athabasca University—Information Technology Strategic Planning for Administrative Systems

3.7.1 Information technology planning and governance—implemented

Background

In our *2004–2005 Annual Report* (No. 19—page 97) we recommended that Athabasca University improve its information technology planning and governance by:

- completing the definition of its overall information technology strategy, and preparing and implementing a plan to achieve the strategy
- adopting a formal information technology internal control system framework
- creating an overall steering committee to manage information technology

Our audit findings

The University has prepared an Information Systems Plan that includes more integration between systems and less reliance on manual intervention. This plan has been approved by the Governing Council and Academic Council and an implementation plan is under development. An industry accepted internal

control framework, inclusive of continual review and enhancement processes, has been adopted and is in the process of being implemented. There is an overall governance structure in place to manage information technology. Three steering committees meet on a regular basis and the University Executive management acts as an overarching steering committee.

3.7.2 Cost tracking system—implemented

Background

In our *2004–2005 Annual Report* (page 99) we recommended that Athabasca University implement a system to quantify the costs of developing and operating Information Technology systems.

Our audit findings

The University has adopted a project methodology for systems developments that will better allow management to track the status of projects, including their costs. There is now a process for initiation, approval, management and closure of projects.

3.8 Performance reporting—post-secondary institutions

Oval's reservation of opinion

Our auditor's report on financial information of the Olympic Oval/Anneau Olympique, operated by the University of Calgary, has a reservation of opinion because the statement of base operating costs and revenue does not include all the revenues and expenses for maintaining, managing and operating the Oval facility. We could not reasonably determine the amount of excluded revenues and expenses.

Agriculture and Food

Summary: what we found in our audits

Performance reporting

Our auditor's reports on the Ministry and Department's financial statements are unqualified.

We found one exception when we completed specified auditing procedures on the Ministry's performance measures—see page 32.

Other entities that report to the Minister

- Systems

  The Agriculture Financial Services Corporation should:
  - improve their loan loss methodology—see page 32.
  - assess the risks and implement policies for wireless technology—see page 34.
  - improve data entry controls for manual Canadian Agricultural Income Stabilization program claims—see page 35.

- Performance reporting

  Our auditor's report on the Agriculture Financial Services Corporation financial statements is unqualified.

Overview of the Ministry

Ministry entities

The Ministry consists of the following entities:

- Department of Agriculture and Food
- Agriculture Financial Services Corporation

The Department of Agriculture and Food also includes the financial results of the Agricultural Products Marketing Council, Alberta Grain Commission, Farmers' Advocate Office, and the Irrigation Council. These entities do not produce separate financial statements.

3 core businesses

The Ministry's 2006–2009 business plan includes three core businesses:

- facilitate sustainable industry growth
- enhance rural sustainability
- strengthen business risk management

Ministry received $531 million

The Ministry received $531 million in revenue in 2006–2007. Its largest revenue sources are:

	(millions of dollars)
Transfers from the Government of Canada	$ 251
Premiums from insured persons	132
Interest and investment income	97
Fees, permits, licenses, and other revenue	29

Ministry spent $1.068 billion

In 2006–2007, the Ministry spent $1.068 billion. Its largest expenditures are:

	(millions of dollars)
Farm income support	$ 573
Insurance	216
Environment and food safety	63
Infrastructure assistance	51
Industry development	46
Rural services	37
Farm fuel distribution allowance	32

For more detail on the Ministry, visit its website at www.agric.gov.ab.ca.

Scope: what we did in our audits

1. Systems

   We followed up our previous recommendations on:

   - establishing measurable targets for its emergency financial assistance programs.
   - strengthening the monitoring and review of employee performance and development.

2. Performance reporting

   We audited the financial statements of the Ministry and the Department for the year ended March 31, 2007. We also completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

   At the Agriculture Financial Services Corporation, we:

   - examined the Corporation's loan loss methodology, wireless technology environment and systems for processing manual program claims for the Canadian Agricultural Income Stabilization program.
   - followed up our 2004–2005 recommendations on the beginning farmer loan program, improving controls over the administration of the Canadian Agriculture Income Stabilization program, and testing advance payment methodologies.

- audited the financial statements of the Corporation
- completed compliance audits for the Government of Canada.

Our audit findings and recommendations

1 Systems

1.1 Measurable targets—implemented

Background

In our *2003–2004 Annual Report* (page 81), we recommended that the Department establish measurable targets for its emergency financial assistance programs.

Our audit findings

The Department has established a template that it uses when new programs are developed. The template requires the Department to document the measurable targets that it will use to evaluate the effectiveness of the program.

1.2 Monitoring performance—implemented

Background

In our *1999–2000 Annual Report* (page 48), we recommended that the Department strengthen the monitoring and review of employee performance and development.

Our audit findings

The Department has implemented the recommendation by:

New performance management system implemented

- implementing a new performance management system, including a Performance Management Contract template for managers and a new employee job performance agreement for all other employees.
- requiring—in its management guidelines—employees to match their goals and competencies with the Department's requirements.
- having its Human Resource Services monitor employee plans.
- training Department supervisors on giving feedback to employees.

2. Performance reporting

2.1 Financial statements

Unqualified auditor's report

Our auditor's reports on the Ministry and Department financial statements for the year ended March 31, 2007 were unqualified.

2.2 Performance measures

We found one exception when we completed specified auditing procedures on the Ministry's performance measures. Data was not reported for the measure titled, *Percent of Alberta production produced under on farm food safety programs: beef feedlots*. As a result, we were unable to complete our specified auditing procedures for this measure.

3. Other entities that report to the Minister

3.1 Systems

3.1.1 Loan loss allowance methodology and process

Recommendation

We recommend that the Agriculture Financial Services Corporation improve its loan loss methodology and processes by:

- **developing guidelines to assess which loans are impaired**
- **incorporating historical loan loss experience**
- **periodically updating data used in the methodology**

Background

Loan loss has two parts – general and specific allowance

The loan loss allowance is an estimate of the losses that exist in the loan portfolio at a specific time. The loan loss allowance has two parts—the specific loan loss allowance (SLLA) and the general loan loss allowance (GLLA). The Corporation records an SLLA for loans it identifies as impaired and a GLLA for loans at risk of loss, but not specifically impaired.

Watch list used to identify loans at risk for the specific allowance

The Corporation creates a specific loan loss watch list quarterly. The list includes loans with more than two payments overdue and loans with security values insufficient to cover the total debt outstanding. For loans on the watch list, account managers update the security values to current market values and decide whether to categorize the loan as impaired. For impaired loans, the Corporation subtracts the security value from the debt outstanding to calculate the SLLA.

Credit risk indicators used to identify loans at risk for general allowance

The Corporation uses credit risk indicators, such as credit scores, debt service ratio and net capital ratio to identify loans at risk of loss. For these loans, the Corporation subtracts the security value from the debt outstanding to calculate the GLLA.

The Corporation recorded an SLLA of $12.1 million and a GLLA of $18.5 million at March 31, 2007.

Criteria: the standards we used for our audits

The SLLA and GLLA methodology and process should include:

- guidelines for identifying impaired loans
- historical loan loss experience to determine expected default rates by risk factor
- data that is complete and current

Our audit findings

This year, the Corporation changed its methodology for calculating loan loss allowances. We have assessed the methodology and identified the following areas for improvement:

Guidelines for calculating loan impairment

No specific guidelines for determining loans at risk of loss

For the SLLA, the Corporation's methodology states that a loan should be set to "impaired" if the Corporation is at risk of loss. However, the Corporation has not developed specific guidelines for assessing risk of loss by loan type. Risk of loss is general and open to interpretation; without further guidance, account managers may not consider all appropriate factors in their assessment or apply these factors consistently.

Historical loan loss experience

Historical loan loss experience not included in methodology

Historical loan loss experience is an indicator of expected losses. However, the Corporation has not included historical loan loss experience in the GLLA methodology because it does not have sufficient data to know why the loss occurred and the risk factors involved. If the Corporation had this information, it could incorporate it into the methodology and calculate expected default rates by risk factor.

Underlying data

Credit risk indicators and security values are not up to date and complete in lending systems

The new methodology uses credit risk indicators and security values to calculate the loan loss allowance. However, the Corporation's processes do not ensure that credit risk indicators and security values are updated regularly for all loans. In the past two years, the Corporation improved its lending system and now records the credit risk indicators as well as security values in the lending system, when the loan is approved. Account managers update the indicators annually for commercial loans, through the annual commercial account review. However, they do not update these indicators for farm loans annually—instead, they update these loans only if a customer requests additional funds or a loan is amended.

We found that 47% of the Corporation's loan customers did not have the credit risk indicators in the lending system. For 54% of the Corporation's loan customers, the Corporation had not updated the security values in the lending system in more than two years.

Implications and risks if recommendation not implemented
The Board may not have sufficient information to accurately determine the SLLA and GLLA. If the allowances are not accurate, the Corporation may be exposed to losses that it is not aware of or may provide for losses that don't exist.

3.1.2 Wireless technology

Recommendation
We recommend that the Agriculture Financial Services Corporation assess the risks associated with wireless networking and implement policies and improve controls to mitigate the significant risks identified.

Background
Wireless devices are used to connect to a wired computer network to provide wireless network access. Without proper configuration of the network, unauthorized users can connect to such wireless devices and gain access to the network and intercept information.

Criteria: the standards we used for our audit
The Corporation should:

- assess the risks associated with wireless technology
- develop, approve, and enforce a wireless networking policy
- monitor its network and buildings for unauthorized and unsecured wireless networking equipment
- prevent its computers from connecting to unsecured wireless networks

Our audit findings

No policy for wireless technology

The Corporation has started using wireless technology. However, we could not find evidence that the Corporation had analyzed and assessed the risks of wireless networking, before using it. As well, the Corporation does not have a wireless networking policy that explains configuration, security, and monitoring requirements.

The Corporation does not monitor its network or buildings for unauthorized and unsecured wireless networking equipment. We found three unsecured wireless devices connected to the Corporation's main computer network. Two of the devices did not have encryption enabled and sent information in plain text. We also found four computers connected to the wireless devices. Three computers belonged to the Corporation's employees; however, the Corporation was unable to identify the origin of the fourth computer.

The Corporation removed the wireless devices after we brought these significant risks to its attention.

Implications and risks if recommendation not implemented

Without understanding the risks of wireless technology and implementing a wireless policy, preventive controls, and monitoring, unauthorized users can access the Corporation's network and sensitive data, such as personal and financial information.

3.1.3 Manual CAIS claims

Recommendation

We recommend that the Agriculture Financial Services Corporation improve data entry controls for manual Canadian Agricultural Income Stabilization claims.

Background

CAIS claims processed manually

The Corporation processes the majority of Canadian Agricultural Income Stabilization (CAIS) claims through the CAIS system (OMNI). However, when the Corporation receives a claim early in the calendar year following the claim year (for example, it receives a 2005 claim early in 2006) the OMNI system does not have all of the table data (prices) in it to process the claim. The Corporation processes these claims manually. For 2006 manual claims, the Corporation paid out either 50% or 80% of the benefit, depending on the commodities in the claim. When OMNI can process current-year claims, the Corporation uses it to reprocess the claim and then pays the remaining benefit.

Call center employees enter the CAIS claim information into spreadsheets for manual CAIS claims. The claim is then reviewed by verification staff, who ensure that the call center employees have entered participants' data correctly and then perform the required verification procedures. Before payment, an approver—independent of data entry and verification—approves the claim.

Of $239 million in CAIS claims (16,488 claims) processed between April 2006 and February 2007, the Corporation processed 27 claims manually totalling $1.8 million.

Criteria: the standards we used for our audits

The Corporation should input manual CAIS claims into spreadsheets accurately and calculate the claim in accordance with program rules and guidelines.

Our audit findings

Manual CAIS claims entered incorrectly resulting in underpaid claims

We tested a sample of six 2006 claims processed manually. Data had been entered incorrectly in two of the six claims, resulting in underpayments of $77,000. For one claim, the historical expenses were entered in the incorrect year (2002 expenses entered for 2001). For another claim, data entry staff entered the ending inventory numbers on the incorrect commodity code line, and there was also a transposition error. In addition, the opening unpaid expenses

did not match the ending unpaid expenses from the prior-year verified claim. The call center staff had entered these claims, and at least two independent staff had reviewed them, before payment. Although data entry controls are in place, they are not operating effectively.

Implications and risks if recommendation not implemented

Without proper verification of the data input, manual claims could result in incorrect payments to CAIS participants.

3.1.4. Administering the Canadian Agricultural Income Stabilization program—implemented

Background

In our *2004–2005 Annual Report* (page 120), we recommended that the Agriculture Financial Services Corporation improve controls over the administration of the Canadian Agriculture Income Stabilization program.

Our audit findings

Improvement in CAIS internal controls with new CAIS system

The Corporation has implemented the recommendation. In 2006–2007, it started using the new CAIS system, which has:

- automated controls built in to verify claim information.
- improved reasonability reporting and documentation controls. The new CAIS system requires processing staff to document variances and provide support for amounts used in the calculation. We tested a sample of 10 claims processed through the new system and found sufficient documentation to explain the amounts used in the calculation.
- the ability to share information between CAIS, insurance and lending computer application systems. Sharing of information between systems will assist with claim verification.

The Corporation has also improved controls in the following areas:

- Testing CAIS spreadsheets—this year, the business analysis acceptance group tested the Microsoft Excel advance spreadsheets before implementing them.
- Identification of "high-risk" participant criteria—the Corporation has developed criteria for identifying high-risk CAIS participants and the Board recently approved the implementation of random CAIS audits.

3.1.5 Testing of advance payment methodology—implemented

Background

In our *2004–2005 Annual Report* (page 123), we recommended that before making advance payments under the Canadian Agricultural Income Stabilization program, the Corporation thoroughly test its methodology for calculating payments.

Our audit findings

The Corporation has not implemented any new advance payment methodologies this year but the federal and provincial governments have agreed to a new advance methodology, called the benchmark margin advance.

3.1.6 Alberta Farm Loan program (formerly Beginning Farmer Loan program)—implemented

Background

In our *2004–2005 Annual Report* (pages 116–120), we recommended that the Agriculture Financial Services Corporation:

- clearly define program eligibility criteria and improve controls over awarding beginning farmer loans, and
- improve program administration and management.

Effective April 1, 2006, the Corporation incorporated aspects of the *Beginning Farmer Loan* (BFL) program in the new *Alberta Farm Loan* (AFL) program.

Our audit findings

Incentive eligibility requirements met

Program eligibility—the AFL program offers a 1.5% interest rate reduction for the first five years as a beginning farmer incentive. To assess if an applicant qualifies for the incentive, the Corporation uses the applicant's net worth at the time of application. We tested 14 loans and found that all loans sampled met the incentive eligibility requirements.

Documentation in accordance with lending policy and procedures manual

Controls for awarding loans—the Corporation has updated the lending policy and procedures manual. The manual includes the documentation requirements to confirm a borrower's financial condition, chattel security values, and arrears monitoring. We tested a sample of 20 loans and found that the documentation requirements for the borrower's financial condition and chattel security values were met. We also tested 15 loans in arrears and found the Corporation was monitoring the arrears in accordance with the procedures.

Objectives of the beginning farmer program were met

Program administration and management—the Corporation has analyzed the results of the 2006 survey of customer satisfaction and found the objectives of the Beginning Farmer Loan Program were met. The Corporation has included a question on the Alberta Farm Loan Program in the 2007 survey of customer satisfaction.

3.2 Performance reporting

Unqualified auditor's opinion

Our auditor's report on the Agriculture Financial Service Corporation's financial statements for the year ended March 31, 2007 is unqualified.

3.3 Other audits

Unqualified auditor's opinion

At the request of the Agriculture Financial Services Corporation, we audited the following schedules related to the Canadian Farm Income Program. We addressed our unqualified auditor's report to Agriculture and Agri-Food Canada.

- Farm Income Assistance Program credit amount and advances received from the Government of Canada for 2001.
- Farm Income Assistance Program credit amount and advances received from the Government of Canada for 2002.

Children's Services

Summary: what we found in our audits

Systems

Child Intervention Services—see Volume 1, page 63.

Performance reporting

Our auditor's reports on the financial statements of the Ministry, Department, and 10 Child and Family Services Authorities are unqualified. We found one exception when we completed specified auditing procedures on the Ministry's performance measures—see page 41.

Overview of the Ministry

The Ministry consists of the Department and 10 Child and Family Services Authorities (Authorities). The Department supports the Authorities, and co-ordinates provincial programs such as the *Prevention of Family Violence* program. The Authorities encompass the different regions of the province and deliver most of the Ministry's services.

Three core businesses

The Ministry's 2006–2009 business plan describes three core businesses:

- promoting the development and well-being of children, youth and families
- keeping children, youth and families safe and protected
- promoting healthy communities for children, youth and families

Ministry spent $900 million

In 2006–2007, the Ministry spent $900 million, of which the Authorities spent $681 million. The following programs are significant expenses:

	(millions of dollars)
Child intervention	$ 446
Child care	104
Services to children with disabilities	101
Family and community support	67
Program support services	40
Prevention of family violence	34
Early intervention	33

Ministry received $305 million

The Ministry had $305 million in revenue in 2006–2007; $243 million of this came from the following transfers from the federal government:

	(millions of dollars)
Canada Social Transfer	$ 137
Early Learning and Child Care	66
Children Special Allowance	23
Service to On-reserve Status Indians	17

For more details on the Ministry, visit its website at www.child.gov.ab.ca.

Scope: what we did in our audits

1. Systems

   We followed up our previous recommendation from our *2004-2005 Annual Report* that the Ministry sign agreements (whether new or renewal) before contractors supply goods or services. We also examined the Ministry systems for Child Intervention Services.

2. Performance reporting

   We audited the financial statements of the Ministry, the Department, and the following 10 Authorities for the year ended March 31, 2007:

   1. Southwest Alberta Child and Family Services Authority
   2. Southeast Alberta Child and Family Services Authority
   3. Calgary and Area Child and Family Services Authority
   4. Central Alberta Child and Family Services Authority
   5. East Central Alberta Child and Family Services Authority
   6. Edmonton and Area Child and Family Services Authority
   7. North Central Alberta Child and Family Services Authority
   8. Northwest Alberta Child and Family Services Authority
   9. Northeast Alberta Child and Family Services Authority
   10. Métis Settlements Child and Family Services Authority

   We completed specified auditing procedures on the Ministry's performance measures.

Our audit findings and recommendations

1. Systems

1.1 Timely contract approvals—implemented

Background

Many contracts to provide services

The Department and the Authorities annually enter into and manage contracts to:

- deliver services to children and families such as group homes, residential treatment facilities and women's shelters.
- receive administration services such as information technology maintenance and operation, and consulting services.

In our *2004–2005 Annual Report* (No. 24—page 129), we recommended that the Ministry sign agreements (whether new or renewal) before contractors supply goods or services.

Our audit findings

Ministry implemented recommendation

The Ministry implemented the recommendation. Authorities started their negotiations with agencies earlier and started to tender some of their contracts for more than one year. Almost all contracts we reviewed were signed before the contractor started delivering services. Others were signed shortly after services started.

2. Performance reporting

2.1 Financial statements

Unqualified auditor's reports

Our auditor's reports on the Ministry, Department and Authorities financial statements for the year ended March 31, 2007 we unqualified.

2.2 Performance measures

Exception

We found an exception with for the measure *Percentage of adults staying at government funded women's emergency shelters who report that they are better able to keep themselves and the children under their care safer from abuse* measure. We found errors arising from inconsistencies in the processes to compile survey data for the measure. Therefore, we were not able to conclude that the results presented were reliable and comparable. Management has explained in the Ministry Annual Report that the data reported for this measure is incomplete, and the procedures relating to the data for this measure are being developed and improved.

Education

Summary: what we found in our audits

Systems

The Department should establish a policy for developing business cases—see page 45, and quantify the cost of savings generated by the Learning Resources Centre—see page 46.

Performance Reporting

Unqualified Auditor's Reports

Our auditor's reports on the Department and the Alberta School Foundation Fund financial statements are unqualified.

No exceptions

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Other entities that report to the Minister

Performance reporting

- Northland School Division No. 61
  We issued an unqualified opinion on the financial statements of Northland School Division No. 61.

- School jurisdiction financial reporting and audit findings
  We have summarized internal control weaknesses and financial statement reporting issues from our review, under section 19(4) of the *Auditor General Act*, of the audited financial statements and audit findings for the 75 school boards and charter schools—see page 48.

Overview of the Ministry

The Ministry's 2006–2009 business plan describes one core business: To lead and support the kindergarten to grade 12 education system so that all students are successful at learning. The core business includes three goals:

- high quality learning opportunities for all
- excellence in student learning outcomes
- highly responsive and responsible education system

In 2006–2007, the Ministry spent approximately $5.6 billion. The largest expenses are:

	(millions of dollars)
Operating support to school jurisdictions	$ 3,969
School facilities	984
Teachers' pensions	483
Accredited private school support	144

The Ministry's revenue was approximately $1.5 billion in 2006–2007. The primary source of revenue is education property taxes ($1.3 billion).

For more information on the Ministry, visit its website at http://www.education.gov.ab.ca/.

Scope: what we did in our audits

1. Systems
   We audited the Department's use of business cases. We followed up our previous year recommendation on purchase of textbooks.

2. Performance reporting
   We audited the financial statements of the Ministry, Department, and the Alberta School Foundation Fund for the year ended March 31, 2007. We completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister
   We performed the following work on entities that report to the Minister:
   - We audited the financial statements of the Northland School Division No. 61 for the year ended August 31, 2006.
   - We reviewed, under section 19(4) of the *Auditor General Act*, the audited financial statements and audit findings for the 75 school jurisdictions and charter schools for the year ended August 31, 2006.

Our audit findings and recommendations

1. Systems

1.1 Business cases

Recommendation

We recommend that the Department of Education establish a policy for developing business cases.

Background

On August 31, 2005, the Department of Education signed a contract with a service provider to develop a computer-based student assessment tool. The objective is to improve student achievement.

The initial term of the contract was for three years, with a minimum fee of $2.9 million over the term of the contract, which was based on 150,000 students taking the test annually.

Criteria: the standards we used for our audit

The Department should have a policy for developing business cases (see glossary). The policy, including guidelines, should deal with:

- the form and content of business case analysis
- the size of projects for which business cases are required
- comparison of life cycle costs of all reasonable alternatives
- identification and analysis of risk factors
- analysis of qualitative factors
- cost-benefit analysis
- assignment of responsibility for preparing business case analysis

The policy should also include processes to challenge, test and review business cases to ensure that appropriate due diligence is carried out.

Our audit findings

Business cases not prepared

The Department did not prepare a written business case for the student assessment tool. Consequently, it is not clear whether the Department took appropriate steps to:

- identify and evaluate whether any alternative approaches were available that could achieve the same objectives more effectively—that is more efficiently or at lower cost
- evaluate whether the benefits of proceeding with the project justified the cost
- analyze qualitative factors, such as how the tool would assist the Department in achieving its goal of improving student achievement
- evaluate and deal with key risks, such as the risk that the project may not improve student achievement or the risk that key stakeholders, particularly teachers, will not accept this tool.

Also, business cases were not prepared for information technology projects.

Management told us that the Department did not prepare business cases for its projects because it did not have a formal policy for preparing written business cases.

Implications and risks if recommendation not implemented
Decision makers may not have the necessary information on the cost effectiveness of reasonable alternatives. Consequently, the Department is at risk of wasting resources by not achieving its objectives.

1.2 Purchase of textbooks—recommendation repeated

We have repeated our 2005 recommendation as the Department has yet to quantify the cost savings generated by the Learning Resources Centre.

Recommendation No. 22
We again recommend that the Department of Education implement a system to periodically evaluate the savings generated by the Learning Resources Centre.

Background
We originally made this recommendation in our *2004–2005 Annual Report* (No.27—page 157). We also recommended that the Department identify opportunities for additional savings.

Economies of scale

The Learning Resources Centre (the Centre) purchases textbooks and other resources in bulk for sale to schools. Sales in Alberta are approximately $25 million. The Centre is able to access greater publisher discounts than are offered to school jurisdictions individually, and additional discounts through its Early Order Discount (EOD) program.

Costs flow through to schools

The Centre incurs costs for shipping from publishers, redistribution to schools, overhead costs to warehouse and manage its inventory of materials, and production costs for distance learning materials for the Alberta curriculum. The Centre passes these costs on to school jurisdictions through its mark-up on the materials it sells.

In its response to our *2004–2005 Annual Report*, the Department committed to carrying out an overall evaluation of the Centre in 2006–2007, to quantify all cost savings realized by the Centre, and identify areas for further savings.

Criteria: the standards we used for our audit

Periodically the Department should evaluate the savings provided to the kindergarten to grade 12 (K-12) sector by the Centre, to determine the amount of net savings for the sector, and to evaluate the value of the Centre to the sector.

Our audit findings

Identified savings opportunities

The Department has looked for further opportunities to achieve savings for the sector, and we find that it has implemented our recommendation to identify opportunities for additional savings.

Processes and utilization improved

- The Department considers the greatest potential savings for the sector to be through the EOD program. To increase the utilization of this program, the Department improved its processes to approve new materials promptly enough to allow schools to order them through the program. Also, the Centre encouraged school jurisdictions to make better use of the program to obtain discount prices. Orders under the EOD program to June 30, 2007 represent 43% of orders for the year, up from 23% of orders in the previous year.

Alternatives considered

- The Department also considered having large orders for books shipped directly from publishers to schools, to eliminate the need for re-packing at the Centre's warehouse, but concluded it would not achieve savings for the sector. The Centre's discounts from publishers are dependent on combining orders into fewer and larger shipments, and large orders by school jurisdictions might still need to be re-packed by those jurisdictions for shipment to individual schools.

Exploring additional opportunities

- The Department has begun working with some post-secondary institutions (PSIs) to identify potential savings the Centre could achieve by buying books on their behalf. The Centre has identified some common materials for one program, negotiated additional discounts from the publishers based on a minimum volume, and drafted a proposal for the PSIs to consider. The Centre should continue to promote the proposal, and look for further opportunities to produce savings through buying other materials for other PSI programs.

- The Department is also continuing to develop its relationship with British Columbia schools to build a stable level of purchases through the Centre.

Savings not quantified

While the Department may have increased savings for school jurisdictions through the expansion of the EOD program, it still has not quantified the savings generated by the Centre for the learning sector. The purpose of quantifying the savings is to prove that the Centre has value.

To implement this recommendation, the Department needs to analyze the costs of the Centre relative to the costs that would have been incurred by school jurisdictions if they had ordered directly from publishers, and quantify the net savings to the K-12 sector.

Implications and risks if recommendation not implemented

Without a periodic analysis of the cost savings generated by the Centre, the Department cannot be certain that the Centre is achieving a net saving for the K-12 sector.

2. Performance reporting

2.1 Financial statements

Qualified audit opinion removed

Last year, we qualified our opinion on the financial statements of the Ministry because they did not include the school jurisdictions. This year, we removed our qualification because the Ministry included school jurisdictions using the modified equity method of consolidation.

The modified equity method of consolidation is allowed as a transition to line-by-line consolidation, which will be required for the year ended March 31, 2009.

Net assets would have increased by $2.4 billion

Under line-by-line consolidation, the Ministry's capital assets would have been fully consolidated so net assets at March 31, 2007 would have increased by approximately $2.4 billion.

Unqualified opinions

We issued unqualified opinions on the Department and the Alberta School Foundation Fund financial statements.

2.2 Performance measures

We found no exceptions when we applied specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

3.1 Review of school jurisdiction audited financial statements and management letters

Background

We audit one of the school jurisdictions. For those jurisdictions we don't audit, we review the management letters sent to the jurisdictions by their auditors. Those audits were not designed to assess all key systems of control and accountability. However, the auditors tell management about weaknesses that come to their attention when auditing the financial statements. We also review the auditors' reports on the financial statements.

There are 75 school jurisdictions comprising 62 school boards and 13 charter schools.

Our audit findings

One qualified opinion

Auditors' Reports—of the 75 school jurisdictions, one (one of the two reported in 2005) received a qualified auditors' report for the year ended August 31, 2006. The report was qualified because the auditor was unable to verify the completeness of revenue from school generated funds. The Ministry is working with the school jurisdiction to have this qualification removed.

One auditor reported that the 2006 (none in 2005) financial statements had been prepared on a disclosed basis of accounting rather than in accordance with Canadian generally accepted accounting principles (GAAP). The school jurisdiction used a disclosed basis of accounting because it disagreed with the Ministry of Education's advice that an asset retirement obligation should not be recorded. The Ministry is discussing this issue with the school jurisdiction and has clarified its advice on asset retirement obligations in its *Guidelines for School Jurisdiction Audited Financial Statements for the Year Ended August 31, 2007*. All other school jurisdiction auditors reported that the 2006 financial statements were prepared in accordance with GAAP.

Financial statements—of the 75 school jurisdictions, 12 (30 in 2005) had annual operating deficits comprising 11 (28 in 2005) school boards and 1 (2 in 2005) charter school. Annual operating deficits are acceptable to the Ministry as long as sufficient accumulated operating surplus funds are available to cover the shortfall.

Two accumulated operating deficits

Accumulated operating deficits are not acceptable to the Ministry. School jurisdictions with accumulated operating deficits are expected to work with the Ministry to eliminate the accumulated operating deficit in accordance with a Minister approved deficit elimination plan. Last year, we reported that at August 31, 2005, four jurisdictions had accumulated operating deficits. By August 31, 2006, two of these jurisdictions had eliminated their accumulated operating deficits, one had reduced it and one increased it.

Management letters—the following is a summary of the audit findings and recommendations reported in writing to school jurisdictions by their auditors for the year ended August 31, 2006. We have organized the summary into areas with an increased incidence of findings and areas with fewer findings than previously.

Areas with more findings than in the previous year

a) **Cash management**—19 jurisdictions (including 6 of the 9 reported in 2005) need to improve cash management processes and controls.

b) **School-generated funds**—26 school jurisdictions (including 14 of the 18 reported in 2005) need to improve the processes used to collect, record, spend and report school-generated funds.

c) **Computer security**—8 jurisdictions (including 3 of the 4 reported in 2005) need to improve computer security processes by reviewing access privileges, backing up data more frequently, installing intrusion detection software or developing security policies.

d) **Purchases**—21 jurisdictions (including 7 of the 18 reported in 2005) need to improve controls over the purchase cycle such as the implementation of review and authorization processes over purchases and payments, retention of supporting documentation, and the recognition of payables at year end.

e) **Personnel management**—6 jurisdictions (including 3 of the 4 reported in 2005) need to take action to deal with staff shortages and training or they need to be more involved with decisions made at the school level.

f) **Board approval**—6 jurisdictions (including 3 of the 4 reported in 2005) need to ensure that board approvals are obtained for matters such as board minutes, accounts receivable write-offs, fund transfers and expense reports.

g) **Review of financial information**—15 jurisdictions (including 6 of the 14 reported in 2005) need to improve their review of financial information such as bank reconciliations, journal entries, monthly financial statements and variances between budget and actual expenditures.

h) **Policies and procedures**—13 jurisdictions (including 5 of the 12 reported in 2005) need to update or implement formal procedures and policies.

i) **Audit committee**—1 jurisdiction (same one as reported in 2005) should consider establishing an audit committee.

Areas with fewer findings than in the previous year

a) **Budgetary process**—2 jurisdictions (including 1 of the 3 reported in 2005) need to improve their budgetary processes.

b) **Goods and Services Tax**—5 jurisdictions (including 1 of the 6 reported in 2005) need to review their processes for recording GST and remitting GST returns.

c) **Segregation of duties**— 6 jurisdictions (including 1 of the 7 reported in 2005) need to have segregation of duties over the authorization and recording of transactions or the custody of and accounting for certain assets.

d) **Capital assets**—5 jurisdictions (including 2 of the 9 reported in 2005) need to improve the recording and tracking of capital assets.

e) **Accounting issues**—4 jurisdictions (including 2 of the 10 reported in 2005) need to resolve accounting issues relating to capitalizing assets, writing off uncollectible accounts, and posting journal entries in the proper period.

f) **Timeliness of financial recording**— 6 jurisdictions (including 2 of the 13 reported in 2005) need to ensure accounting transactions, accruals, receivable statements or financial statements are prepared or recorded on a regular and timely basis.

g) **Payroll**—10 jurisdictions (including 7 of the 22 reported in 2005) need to improve controls over the accuracy of and access to payroll information.

The Ministry contacts all jurisdictions and encourages them to deal with the issues raised in the management letters, particularly noting recommendations repeated from prior years.

Employment, Immigration and Industry

Summary: what we found in our audits

Systems

The Ministry should improve its:

- use of exception reports to manage its income support program and have the compliance audit function examine their use—see pages 55 and 56.
- controls to prevent duplicate income support payments from being processed—see page 57.
- capital asset policy and procedures. These are not detailed enough to help in deciding if a purchase is a capital asset or a current year expense—see page 58.

The Ministry also needs to obtain independent assurance on the control environment at its information technology service providers—see page 60.

Performance reporting

Our auditor's report on the Ministry financial statements is unqualified and we found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Other entities that report to the Minister

Performance reporting—Workers' Compensation Board (WCB)

We issued an unqualified auditor's opinion on the financial statements of WCB for the year ended December 31, 2006. Also, we found no exceptions when we completed specified auditing procedures on WCB's performance measures in its accountability framework.

Overview of the Ministry

Ministry entities

The Ministry delivers programs and services through the Department of Employment, Immigration and Industry, the Alberta Labour Relations Board, the Appeals Commission for Alberta's Workers' Compensation, and the Workers' Compensation Board. The Northern Alberta Development Council's expenses are included in the Ministry's financial statements.

Ministry spent $888 Million

In 2006–2007, the Ministry spent $888 million on the following:

	(millions of dollars)
People and Skills Investments	$ 695
Industry, Regional and Rural Development	130
Workplace Investments	29
Labour Relations and Adjudication	3
Workers' Compensation Appeals	9
Other	22

Ministry received $238 million

The Ministry received $238 million in 2006–2007, $190 million of which came from the following transfers from the Government of Canada:

	(millions of dollars)
Labour market Development Agreement Benefits	$ 118
Canada Social Transfer	45
Rehabilitation of Disabled Persons	25
Canadian Agriculture Skills Services	2

WCB's financial results

WCB's financial results are reported for the calendar year and are not consolidated with the Ministry. Its financial results are summarized as follows:

	(millions of dollars)
Revenue	$ 1,724
Expenses	974
Assets	6,785
Liabilities	4,972
Reserves and fund balance	1,813

For more information on the Ministry and its programs, see its website at www.gov.ab.ca/eii. For more information on WCB and its programs, see its website at www.wcb.ab.ca.

Scope: what we did in our audits

1. Performance reporting

   We:

   - audited the financial statements of the Ministry for the year ended March 31, 2007.
   - audited the March 31, 2007 Labour Market Development Claim and the March 31, 2006 Employability Assistance for People with Disabilities Claim.
   - completed specified auditing procedures on the Ministry's performance measures.

2. Other entities that report to the Minister

2.1 Performance reporting—Workers' Compensation Board

We audited the financial statements of the Workers Compensation Board for the year ended December 31, 2006. We also audited the schedule of administrative charges on WCB for the year ended December 31, 2006.

Our audit findings and recommendations

1. Systems

1.1 Income support program—exception reports

Recommendation

We recommend that the Ministry of Employment, Immigration and Industry improve the use of exception reports to manage the income support program by:

- **identifying exception reports available.**
- **assessing if the exception reports identify key program risks.**
- **identifying the review and follow-up requirements.**

Background

The Ministry has developed a series of exception reports to give management and staff at the worksites information on payments to income support recipient payments.

Exception reporting is a key control

Exception reporting is a key control. Exception reports are used to assist management in identifying non-compliance with policy, identifying missing or inconsistent data, and monitoring financial transactions. Examples of exception reports include a report that identifies instances where client budget information is missing, or where unusual or duplicate payments are being made.

Criteria: the standards we used for our audit

The Ministry should use exception reports to identify potential non-compliance and promptly investigate it.

Our audit findings

Over 60 exception reports

Management has more than 60 exception reports available for review and potential follow-up. The regional office personnel use some of the exception reports to assist them in monitoring the income support program. We identified the following areas of exception reporting that need improvement:

Reports don't cover all risks

- cases where risk was identified but no exception report was available. For example, if an income support recipient is classified as "expected to work" for an extended period of time, it would be useful to review the file to ensure that the client's circumstances and payments are correct.

Varied use

- varied use and investigation of exception reports among offices. It is not clear which of the several reports that staff must review and follow up, and which reports are optional.

Incomplete list

- an incomplete list of available reports. For example, the list did not include the report identifying duplicate payments between learners and income support recipients. Nor did it list the exception reports available for drug utilization.

Implications and risks if recommendation not implemented

Non-compliance with policies and procedures may go undetected if relevant exception reports are not available or used.

1.2 Compliance audit function—Income support program

Recommendation

We recommend that the Ministry of Employment, Immigration and Industry strengthen its compliance audit of the income support program by ensuring that its regional office staff review and act on key exception reports.

Background

Conducting internal compliance audits is a key function in control for income support program

Compliance audit is a key control for the accurate processing of income support payments. Compliance audit tests more than 400 income support payment samples each year. These tests of the income support recipient files include:

- Matching the information in the files to the client information in the Central Client Directory
- Ensuring that monthly payments to income support recipients (excluding Alberta Medical Benefits) are supported by documentation.

The compliance auditors discuss their findings with caseworkers and casework supervisors at each worksite and report their findings to six regional directors. The results of these audits are summarized for each region and shared with the ministry's Senior Financial Officer.

Criteria: the standards we used for our audit

Compliance audits should provide relevant and timely feedback to management.

Our audit findings

Good practices

Compliance auditors use good practices in working on the income support program, including:

- using a detailed audit program defining specific procedures;
- using an objective sampling methodology based on the payment data;
- preparing working papers that show the samples selected and the procedures performed;
- discussing the errors identified with caseworkers and supervisors;
- preparing a summary report indicating the number of findings by type of compliance and then extrapolating the errors over the payment population and calculating the impact of the error for each region.

Should include processes to follow-up on exceptions

However, compliance auditors can improve the effectiveness of the compliance audit procedures. The Ministry has developed a series of exception reports that identify potential errors and matters for follow-up. The compliance audit would be more effective if, as part of the review, compliance auditors tested management follow-up on items identified in key exception reports.

Implications and risks if recommendation not implemented

If compliance auditors don't test regional offices follow-up then areas of non-compliance identified by key exception reports may not be resolved.

1.3 Debit cards

Recommendation

We recommend that the Ministry of Employment, Immigration and Industry improve controls to prevent duplicate income support payments to the same recipient.

Background

The Ministry has issued debit cards as a payment method for income support recipients in a pilot project at two worksites—the Edmonton Centre and Brooks.

Criteria: the standards we used for our audit

The Ministry should process payments accurately and completely—and only once.

Our audit findings

Process to detect duplicate payments not efficient

The Ministry has a process to detect duplicate payments made to an income support recipient by both a cheque and debit card. However, the process for detecting the duplicate payment after a cheque has been issued won't be efficient or effective when the debit card system is expanded to other worksites.

The debit card system is not interfaced directly into the Ministry's income support payment system. When payment is by debit card, the caseworker must update a field in the income support payment system to indicate that. If the caseworker doesn't do the update, two payments are processed, one by cheque and the other by debit card. The cheque is mailed the following day.

To detect duplicate payments, the Ministry generates a daily exception report that identifies debit card payments that do not match the information in its income support payment system. The Ministry follows up this daily exception report to identify the cause of the discrepancy. If it finds a duplicate payment, it has to notify the Finance Ministry. Then the Finance Ministry must locate the cheque run—before the cheques are mailed—and cancel it. This must all take place before 9 a.m. each morning otherwise the cheque for the duplicate payment is mailed to the recipient.

Implications and risks if recommendation not implemented

The Ministry may issue duplicate payments.

Inefficiencies exist when staff time is required to identify, locate and cancel cheques issued in error.

1.4 Capital asset policy

Recommendation

We recommend that the Ministry of Employment, Immigration and Industry improve its capital asset policy and procedures.

Background

Ministry purchased new software for $19M

The Ministry is implementing new systems. In 2006–2007, the Ministry signed a contract for $19 million for new software to support the Ministry's Alberta Works initiative. The Ministry also purchased other new computer equipment and software. Total capital additions for computer equipment and software at March 31, 2007 were $9 million.

Existing policy

The Ministry's existing capital asset policy states that the following items are capital:

- buildings, leasehold improvements, building equipment and infrastructure, all other equipment including computer hardware and software, office equipment and furniture whether purchased or self-constructed, costing $5,000 or more;
- land, regardless of cost is capitalized;
- new systems development costs for management information systems that are required for the entity's operations when the anticipated direct development costs exceed $100,000; and
- major enhancements to existing management information systems are to be capitalized only when enhancement costs exceed $25,000.

Criteria: the standards we used for our audit

- Assets should be accurately recorded in the financial statements and in the proper period;
- Policies and procedures should have sufficient detail to ensure that intended results are achieved;
- Purchases with a future benefit should be recorded as an asset.

Our audit findings

Policy is not detailed enough

The Ministry's current capital asset policy is not detailed enough to help in deciding if a purchase is a capital asset or a current-year expense. As a result, it can be hard to decide whether to capitalize or expense information system purchases. For example:

Future maintenance cost expensed instead of being recorded as asset

- The payment schedule for the $19 million software included $4.7 million for software maintenance that covered a period of three years. The Ministry recorded the full amount as an expense considering it maintenance. However, because the maintenance costs paid in the current year had a benefit extending over three years, future years' maintenance costs of $3.8 million should have been recorded as an asset.
- The Ministry bought telephone systems improvements for a total cost of approximately $187,000. Some components of the systems were capitalized and others that appear to be capital in nature were expensed, resulting in $43,000 overstatement of expenses.

Implications and risks if recommendation not implemented
The costs of assets purchased will not be recorded accurately or in the proper period.

1.5 Information technology control environment

Recommendation No. 23

We recommend that the Ministry of Employment, Immigration and Industry:

- **develop service level agreements with information technology service providers that clearly define expected services;**
- **establish processes to obtain assurance that these service providers consistently meet service level requirements and that control activities performed by the providers are operating effectively.**

Background
The Ministry has outsourced much of its information technology (IT) infrastructure and operations. Outsourcing can be an efficient and effective way to provide required IT services to an operation. However, organizations that outsource all or part of their IT infrastructure or operations must still ensure that service levels are met and that there are appropriate controls over the confidentiality, integrity, and availability of the all information assets.

The Ministry relies on two IT service providers and Service Alberta to support their IT operations.

Criteria: the standards we used for our audit
The Ministry should have:

- service level agreements (SLAs) with service providers that outline the that will be provided.
- effective documented control processes to ensure that service providers consistently meet the agreed to SLAs and security requirements.

Our audit findings

SLA does not adequately define expectations

The Ministry has entered into an SLA with Service Alberta. However, the SLA does not clearly define expectations for the outsourced information technology services. The Ministry also does not have a review process to ensure that Service Alberta has controls in place over:

- access to systems
- remote access security
- change control processes

Assurance over service provider controls not obtained

The Ministry also has a SLA with two other services providers. But the Ministry does not have a process to ensure that one of these two service providers is managing their access to ensure the protection and confidentiality and integrity of the Ministry's information assets.

Implications and risks if recommendation not implemented

Without defining services required and without processes to monitor and ensure that all outsourced service providers are meeting the required SLA and security requirements, the Ministry may not receive the expected services and have sufficient information to evaluate service quality.

2. Performance reporting

2.1 Financial statements

Unqualified opinions and no exceptions

We issued unqualified audit opinions for:

- the Ministry of Employment, Immigration and Industry the year ended March 31, 2007
- the March 31, 2007 Labour Market Development Claim
- the March 31, 2006 Employability Assistance for People with Disabilities Claim.

2.2 Performance measures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

3.1 Performance reporting—Workers' Compensation Board

We issued an unqualified auditor's opinion on the financial statements of WCB for the year ended December 31, 2006. We also issued an unqualified auditor's opinion on the schedule of administrative charges of WCB for the year ended December 31, 2006.

Energy

Summary: what we found in our audits

Systems

Royalty review systems—see Volume 1, page 91.

The Department and the Alberta Energy and Utilities Board (EUB) should continue to implement our recommendations regarding the assurance over the accuracy of volumetric data—see page 64.

The EUB should implement an IT control framework—see page 71.

Performance reporting

Our auditor's reports on the financial statements of the Ministry and the Department are unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Other entities that report to the Minister

Performance reporting

- Our auditor's reports on the financial statements of the EUB and the Alberta Petroleum Marketing Commission (the Commission) are unqualified.

Overview of the Ministry

Ministry entities

The Ministry consists of the Department of Energy, the EUB and the Commission.

Four core businesses

The Ministry's 2006–2009 business plan identifies four core businesses:

- secure Albertans' share and benefits from energy and mineral resource development
- ensure Alberta's energy and mineral resources remain accessible, competitive and attractive to investment and development
- ensure Alberta consumers have a choice of reliable and competitively priced energy
- regulate the development and delivery of Alberta's energy resources and utilities services in a manner that is fair, responsible and in the public interest

Ministry received $12.7 billion

The Ministry collected $12.7 billion in revenue in 2006–2007, from the following sources:

	(millions of dollars)
Non-renewable resource revenue	$ 12,260
Freehold mineral rights tax	317
Industry levies and licenses	85
Other revenue	51

Ministry spent $223 million

The Ministry spent $223 million in 2006–2007.

For more details on the Ministry, visit its website at www.energy.gov.ab.ca.

Scope: what we did in our audits

1. Systems

   We audited the adequacy of the Department's royalty review systems. We also followed up our previous recommendations.

2. Performance reporting

   We audited the financial statements of the Ministry and the Department for the year ended March 31, 2007. We completed specified auditing procedures on the performance measures in the Ministry's annual report.

3. Other entities that report to the minister

   We audited the financial statements of the Commission for the year ended December 31, 2006. We also audited the EUB financial statements for the year ended March 31, 2007.

Our audit findings and recommendations

1. Systems

1.1 Assurance on well and production data—progress report

Background

Last year we repeated our recommendation that the Department:

- complete its risk assessment and evaluate the assurance obtained from the Petroleum Registry System and the Department's controls over well and production data;
- communicate to the Alberta Energy and Utilities Board how much assurance, if any, the Department needs over the completeness and accuracy of well and production data.

Recommendation repeated last year

We first reported this matter in our *2002–2003 Annual Report* (page 97), and revised our recommendation in our *2004–2005 Annual Report* (No. 28—page 165) to focus more on the Department's responsibilities. Last year, we repeated the recommendation because the Department's progress was slow.

Criteria: the standards we used for our audit

The Department should have adequate assurance that well and production data reported by industry is complete and accurate.

Management actions

a) Communication between the Department and the EUB

Cooperation improved between the Department and EUB

The Department and the EUB worked together through a joint steering committee established to implement our recommendation. The steering committee was co-chaired by an assistant deputy minister from the Department and an executive manager from the EUB along with other senior managers from both organizations. A project team was also established that included the committee members, other Ministry staff, and consultants. The degree of cooperation and communication between the Department and the EUB improved after the formation of the steering committee which met regularly throughout the year.

b) Risk and control assessment

In October 2006, the project team prepared a draft risk assessment that identified 25 data elements that have a significant impact on royalty calculations for gas and conventional oil. Since the 25 data elements only pertain to gas and conventional oil, a separate risk assessment for oil sands is being done. For each element the team estimated the impact and probability of errors on royalty calculations.

The Steering Committee also hired consultants to document systems and identify existing controls. The documentation prepared by the consultants identifies many relevant controls over the completeness and accuracy of volumetric data once that data has been entered into the petroleum registry and transferred to the Department's systems that calculate royalties.

Progress on risk assessment made

From February to May 2007, the project team made further progress on the risk assessment started in October 2006 by identifying controls for each element that would prevent or detect errors in well and production data from their source as entered into the petroleum registry.

c) Communicate required level of assurance

The steering committee's strategy was to have the EUB audit groups begin testing some of the data elements while other steps were being taken to implement the recommendation. As such, after the project team prepared the draft risk assessment in October 2006, the steering committee decided to focus available audit resources on the audit of six data elements that received the highest risk ratings. Through the committee, the Department reviewed and approved the audit plans for these six data elements. The EUB completed these six data element audits, and the project team is assessing the results.

What remains to be done

The Department needs to complete these key steps to finish implementing our recommendation:

Finish risk assessment

- Finish the draft risk assessment for the 25 data elements. The project team has identified several controls for each data element that may prevent or detect errors in volumetric data as entered into the Petroleum Registry. To finish the assessment, controls over the initial well and production data entered by producers need to be documented and key controls need to be tested to determine if they are operating as intended to allow a conclusion as to whether the controls provide adequate assurance for each element.

Assess residual risks

- Identify any significant residual risks. From the above step, the Department will be able to determine for each data element whether more assurance is needed or conclude that adequate assurance is already obtained. More assurance may be obtained by changing or implementing new control processes, or directly verifying the data through audits. The Department should work with the EUB to determine the most efficient way of obtaining any additional assurance required. It may be determined that the most efficient way to obtain more assurance is to amend or implement a new control process at the Department or the EUB, or to perform direct verification through an audit.

Extrapolate findings

- Ensure that audit findings can be extrapolated. As noted above, the project team is assessing the findings of the six data element audits. Findings for three data elements can be extrapolated to provincial totals while three cannot be extrapolated. Future audit samples need to be designed to ensure that findings can be extrapolated to provincial totals and the effects calculated on royalties. The ability to extrapolate audit findings increases substantially the value of the audit work completed.

Ensure processes are sustainable

- Ensure that sources of assurance are sustainable. While reviewing the progress that the EUB made on our volumetrics recommendation we noted that the production audit group was unable to complete any measurement compliance audits in the current year because their staff

were fully utilized completing two data element audits for the Department. If the EUB cannot provide assurance to the Department over the long term, the Department will have to make other arrangements to obtain assurance.

Other observation

Complex royalty regime requires more resources to ensure integrity of data

In July 2007 the Government of Alberta was in the process of reviewing Alberta's royalty regime. The Department should consider the findings of its risk and control assessment in making any recommendations to amend the existing royalty regime to make it as straight forward as practically possible. The more complex the regime, the more resources needed to control risks and ensure collection of applicable royalties.

Implications and risks if recommendation not implemented

Until the recommendation is fully implemented, our original finding that the Department cannot determine and support the assurance obtained over volumetric data remains outstanding.

Royalties may be foregone

Without assurance over volumetric data the Department cannot support a conclusion that all royalties due under the existing regime are being collected.

1.2 Royalty adjustment programs—implemented

Background

In our *2002–2003 Annual Report* (page 95), we recommended that the Department of Energy assess whether the royalty reduction sub-programs are achieving their intended objectives. The adjustment sub-programs are designed to encourage production from wells that would otherwise not be economic to drill and operate. Last year, the Department finished reviewing four of the then eleven royalty adjustment sub-programs and made plans to amend or phase out those four sub-programs. To implement our recommendation the Department needed to demonstrate a plan to review the remaining sub-programs.

Our audit findings

The Department implemented our recommendation by preparing a schedule that lists when each of the sub-programs will be reviewed. For example, the Department plans to review three more of the sub-programs by July 2008. We understand this schedule may change depending on the recommendations of the Government of Alberta's public royalty review panel.

2. Performance reporting

2.1 Financial statements

We issued unqualified auditor's reports on the financial statements of the Ministry and the Department.

2.2 Royalty revenue adjustments—implemented

Background

In 2006, we recommended that the Department review the extent of evidence required to support significant adjustments to royalty revenue because we found that the Department did not have sufficient support for a $237 million accounting adjustment related to the low productivity royalty adjustment.

Our audit findings

This year we reviewed two new adjustments and concluded that they were adequately supported. One adjustment was to accrue $55 million for Alberta Royalty Tax Credit claims that will be received in 2007 and apply to the 2006 tax year. The other was a $29 million adjustment relating to annual operating costs to improve the accuracy of the natural gas royalty accrual.

The Department continues to assess the reasonableness of existing adjustments in the royalty forecasts and will assess whether additional adjustments are required to improve the accuracy of the accruals where changing historical trends or new information suggests doing so. Also, we will continue to review adjustments in our future audits.

2.3 Performance measures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

3.1 Systems

3.1.1 Assurance systems for volumetric accuracy and enforcing measurement standards—progress report

Background

In our *2004–2005 Annual Report* (No. 29—page 169), we recommended that the Alberta Energy and Utilities Board explore ways to strengthen its controls for verifying the accuracy and completeness of oil and natural gas volumetric data and for enforcing measurement standards.

Industry is required to file volumetric production data each month with the EUB. The volume of gas and oil produced during the month is reported in the Petroleum Registry of Alberta (the Registry) to both the EUB and the Department of Energy (the Department).

The EUB conducts a wide variety of assurance and audit activities to ensure compliance with regulatory requirements including audits that verify production data reported by industry to confirm compliance with measurement standards. A large portion of the compliance work related to production data is conducted by the EUB's production audit and information collection and dissemination groups. Production data is used by the Department to calculate royalties and the Department relies on the integrity of the EUB information management processes and audit work. The regulatory compliance audits were the focus of our original recommendation.

Our original audit identified that the EUB had not determined or communicated to the Department the level of assurance over production data provided by its audits. We also noted the EUB should identify areas where computer edits or warning messages within the Registry are incomplete or do not effectively identify anomalies with production data. In addition, we observed that relative to the extent of industry activity a limited number of production audits were completed, mainly due to limited audit resources. Finally, we noted that enforcement criteria for differences in the measurement of production data were unclear.

Criteria: the standards we used for our audit

The EUB should have processes to:

- verify industry's reported volumetric data; and
- enforce its measurement requirements.

Management actions

Extrapolation methodology not finalized

a) Communication between the EUB and the Department

Communication between the EUB and the Department has improved in 2007 with the formation of a joint steering committee and project team established primarily to prepare a detailed analysis and risk assessment for production data, and to evaluate the amount of assurance over the accuracy of production data that the Registry edits and other validation controls are providing. The steering committee developed a work plan to provide direction to Department and EUB staff. A strategy to seek direct audit assurance over key production data elements was established. In total, 25 data elements were identified as potentially impacting royalties. Of the 25 data elements, six were identified by the Department of Energy as most risky and were audited by the EUB. The methodology and the confidence level associated with the extrapolation of the volumetric errors in the measurement of production data across the province have not yet been finalized.

b) Data Integrity within the Petroleum Registry

The EUB has taken steps to identify areas where computer edits or warning messages within the Petroleum Registry of Alberta are incomplete or do not effectively identify anomalies. The EUB Information and Collection Dissemination Group (ICD) has a process for tracking, assessing, assigning responsibility and communicating identified production data issues within the Registry. The ICD performs a number of queries and analyses on the Registry data in order to identify data anomalies and areas for enhancement. The purpose of these queries and analyses is to assess areas where controls within the Registry could be improved, as well as to perform a review over the integrity and reasonability of the production data. Documentation has been prepared by the EUB that outlines which queries are currently being completed and what steps should be taken if an issue has been identified, dependant on the severity of the issue.

c) Enforcement

Non-compliance categories defined

A revised Compliance Assurance—Enforcement Directive was released in February 2007 and sets out as one objective: to provide accurate, comprehensive and current information, including production data, to its stakeholders. Categories of non-compliance are now clearly defined.

d) Staffing

Production Audit Group significantly short-staffed

The Production Audit Group is now comprised of seven individuals who are responsible for performing the various audits and achieving the goals set out in the annual audit plan. However, for a significant portion of 2006, the Production Audit Group consisted of only one auditor.

e) Audit documentation

New documentation standards for the planning, execution, reporting and follow-up phases of field audits and audit findings review procedures have been implemented by the Production Audit Group.

What remains to be done

While it is recognized that the accuracy of the calculation of oil and gas royalties in Alberta is a shared responsibility of the Department of Energy and the EUB, to complete the implementation of our recommendation the EUB should:

Establish level of data accuracy

- Set expected levels of assurance. The EUB has not set the expected levels of assurance required. In consultation with the Department of Energy, the EUB should establish the levels of data accuracy assurance that its processes (audits, computer edits) should provide. The EUB should identify the levels of assurance provided by its preventative,

detective and corrective controls. The controls should be identifiable in relation to the control objectives established by the EUB.

Assess staffing levels in Production Audit Group

- Assess its ability to continue to conduct both the data element audits and regulatory compliance audits. Once the assessment is complete, a plan should be developed and operationalized to provide the sustainable audit assurance that is required. Regulatory compliance audits have not been completed since May 2006 as the Production Audit Group was directly impacted by the availability of staff required to complete the data element audits. It is uncertain whether the Production Audit Group will have sufficient staff to complete the planned regulatory compliance audits (80 in 2007 and 140 in 2008) as well as the data element audits.

Quantify & report errors in a timely manner

- Implement a regular and timely reporting system for measuring and quantifying identified errors for use by both the EUB and the Department.

Implications and risks if recommendation not implemented

Inappropriate reliance may be placed on the Production Audit Group's audits by senior management at the EUB and the Department resulting in incorrect conclusions relating to industry's compliance with regulations and the accuracy of production volumetric data.

3.1.2 Energy and Utilities Board IT control framework

Recommendation No. 24

We recommend that the Alberta Energy and Utilities Board (EUB) implement an IT control framework to mitigate identified risks to the organization.

Background

The EUB uses information extensively to fulfill its mandate. Accordingly, IT resources need to be managed in order to provide the information it needs.

An IT control framework is an effective method to mitigate risks and bridge the gap between control requirements, technical issues, and business risks. A control framework should give senior management and IT users a set of generally accepted measures, indicators, processes and best practices to help them maximize IT benefits while mitigating identified risks through appropriate IT controls.

An IT control framework can be a critical element in ensuring proper controls over EUB's information and the systems and processes that create, store, manipulate, and retrieve EUB's client and financial data. There are several IT frameworks used in practice. One that is used extensively is called *Control Objectives for Information and related Technology* (COBIT).

Criteria: the standards we used for our audit

EUB should:

- Identify and adopt an organization wide IT control framework that is based on an IT risk assessment to determine the scope and prioritization of the IT control framework.
- Design and implement adequate controls to mitigate the identified risks.
- Assess the operating effectiveness of the IT controls.
- Implement a sustainment process to ensure that IT controls are reviewed for design adequacy, compliance, and effectiveness.

Our audit findings

The EUB has not conducted an organization wide IT risk assessment to identify risks to the EUB financial or business processes that could be mitigated by properly designed IT controls.

Although we observed that the EUB has some documented and undocumented control processes in place for specific IT and business processes associated with financial systems, we did not observe an overall IT control framework that mitigates risks throughout the EUB computing environment. This would include an adequately documented control process to ensure that access to all EUB financial or business critical systems and applications is properly requested, approved, reviewed and terminated as appropriate. And, that an organization-wide documented change management control process is operating to ensure that all changes to EUB financial or business critical systems are properly requested, approved, developed, tested, and implemented appropriately.

Implications and risks if recommendation not implemented

An IT control framework with well designed control activities that operate effectively can help ensure the completeness, accuracy, and validity of EUB's critical business and financial data. Without an IT control framework, EUB may not be able to identify control processes to effectively mitigate IT risks.

3.2 Performance reporting

Financial statements

We issued unqualified auditor's reports on the financial statements of the EUB and the Commission.

Environment

Summary: what we found in our audits

Performance reporting

Our auditor's report on the Ministry's financial statements is unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

Ministry spent $151 million

In 2006–2007, the Ministry spent $151 million in its two core businesses:

	(millions of dollars)
Assuring Environmental Quality	$ 95
Sharing Environmental Management and Stewardship	56

Ministry received $7 million

The Ministry received $7 million in 2006–2007 from sources external to the government:

	(millions of dollars)
Fees, Permits and Licenses	$ 3
Other Revenue	4

For more detail on the Ministry, visit its website at www.gov.ab.ca/env.

Scope: what we did in our audits

1. Systems

   We continued to monitor the Ministry's progress in:

   - implementing a system to obtain sufficient financial security to complete conservation and reclamation of disturbed land
   - developing a system to track information for contaminated sites

2. Performance reporting

   We audited the financial statements of the Ministry for the year ended March 31, 2007. We completed specified auditing procedures on the Ministry's performance measures.

Our audit findings and recommendations

1. Systems

1.1 Financial security for land disturbances—progress report

Background

Financial security is to cover the cost of abandonment, and remediation and reclamation that an operator is unable to complete. It is returned to the operator as the site is reclaimed, or forfeited if the operator fails to meet its obligations.

Recommendation first made in 1998–1999

In our *2004–2005 Annual Report* (No. 31—page 180), we recommended that the Ministry of Environment implement promptly a system to obtain sufficient financial security to ensure parties complete the conservation and reclamation activity that the Ministry regulates. This was a repeat of our *1998–1999 Annual Report* (No. 30—page 157) recommendation. We had noted that there were some large land-disturbing industries (oil sands and coal mines) that were not providing security at full cost of reclamation and there was no evidence that a solution to inadequate security was imminent.

Consultation with stakeholders planned

In our *2005–2006 Annual Report* (Volume 2, page 86) we reported a government-industry team led by the Ministries of Environment and Energy has prepared a proposal (Mine Liability Management Program) for cabinet review and approval which uses a risk based approach to calculate the security needed for:

- coal mines;
- coal processing plants and related infrastructure at mine sites;
- oil sands mines;
- bitumen extraction processing facilities and upgrading plants, and related infrastructure at mine sites; and
- plants and infrastructure that sit on land leased or owned for the purposes of mining or processing of coal or oil sands irrespective of ownership.

Management actions

At the time of our 2007 follow-up of progress, the proposal was being revised. If the revisions are approved, the Ministry then plans to consult with selected stakeholders.

1.2 Contaminated sites information system—progress report

Background

Recommendation first made in 2002–2003

In our *2005–2006 Annual report* (No. 29—page 87) and in our *2002-2003 Annual Report* (No. 12—page 103) we recommended that the Ministry of Environment implement an integrated information system to track contaminated sites in Alberta.

A contaminated site is land that:

- contains contamination above the limits allowed by environmental guidelines
- poses an unacceptable risk to human health or ecosystems

Alberta follows the guidelines developed by the Canadian Council of Ministers of the Environment.

The Ministry as the regulator for contaminated sites needs to have information to:

- identify contaminated sites
- assess, designate and approve remedial action plans for contaminated sites
- ensure contaminated sites are being managed so that the potential adverse effects have been mitigated.

In our *2002–2003 Annual Report* we estimated that the Ministry had more than 5,000 contaminated sites files. We also reported that Ministry did not have an overall corporate system to track contaminated sites information.

Management actions

Significant progress planned for 2007–2008

The Ministry continued to electronically capture documents associated with contaminated sites. It expects this electronic information will be placed into the contaminated sites information system.

The development of an information system has been identified as a divisional priority for 2007–2008. A project steering team has been formed, and a project charter is being prepared.

The Ministry expects that significant work will be done during 2007–2008 on the development of this system.

Executive Council

Summary: what we found in our audits

Performance reporting
Our auditor's report on the Ministry's financial statements is unqualified. We found no exceptions when we applied specified auditing procedures to the Ministry's performance measures.

Overview of the Ministry

The Ministry consists of the Office of the Premier and Executive Council and the Public Affairs Bureau.

In 2006–2007, the Ministry spent $21.5 million.

For more information on the Ministry, see www.gov.ab.ca and www.pab.gov.ab.ca.

Scope: what we did in our audits

Performance reporting

We audited the financial statements of the Ministry for the year ended March 31, 2007. We applied specified auditing procedures to the performance measures in the Ministry's 2006–2007 annual report.

Finance

Summary: what we found in our audits

Systems

The Government's revenue forecasting systems—see Volume 1, page 133.

The Ministry should:

- assess the risk of individuals exceeding the tax-exempt tobacco limit of the Alberta Indian Tax Exemption program—see page 85.
- ensure that staff properly approve journal entries—see page 86.
- ensure that controls over information assets hosted or administered by third party service providers are documented and operating effectively—see page 87.
- improve controls over investment management—see page 90.

Performance reporting

Our auditor's reports on the Ministry and Department of Finance financial statements are unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Other entities that report to the Minister

Three recommendations to ATB

- Systems—Alberta Treasury Branches (ATB)
  ATB should improve its processes for ensuring compliance with Alberta Finance's Outsourcing Guideline (see page 94), implement an effective organization-wide information technology control framework (see page 97), and confirm the reasonableness of its general loan loss allowance model (see page 99).

- Systems—Alberta Securities Commission
  We assessed 5 remaining recommendations from our 2005 report as implemented.

Unqualified reports for ATB and its subsidiaries' financial statements and compliance audits

- Performance reporting—Alberta Treasury Branches
  We issued unqualified auditor's reports for all the financial statement audits we completed during the year for ATB and its subsidiaries listed in section 3.2 of Scope. A public accounting firm issued unqualified auditors' reports for regulatory compliance audits of ATB's subsidiaries.

Unqualified reports for other entities

- Performance reporting—other entities
  We issued unqualified auditor's reports for all the financial statement audits we completed during the year for the entities listed in section 3.4 of Scope.

Alberta Heritage Savings Trust Fund

- Performance reporting—Alberta Heritage Savings Trust Fund
  We provided interim review reports to the Minister of Finance on the Alberta Heritage Savings Trust Fund's quarterly financial statements.

Overview of the Ministry

Three core businesses

The Ministry of Finance has three core businesses:

- Fiscal planning and financial management
- Investment, treasury and risk management
- Financial sector and pensions

Department and entities

The Ministry consists of the Department and the entities listed in section 3.4 of Scope, including Alberta Treasury Branches.

Ministry manages over $70 billion of investments

The Ministry manages investments with a market value of more than $70 billion as at March 31, 2007. These investments include the assets of the General Revenue Fund, Alberta Heritage Savings Trust Fund, other provincial endowment funds, government-sponsored public sector pension plans and other government-related clients.

Ministry received $16.8 billion

The Ministry collected approximately $16.8 billion in net revenues in 2006–2007 from the following sources:

	(millions of dollars)
Income taxes	$ 11,228
Net investment income	2,953
Other taxes	1,821
Net income from commercial enterprises	282
Other	504
	$ 16,788

Ministry spent $950 million

In 2006–2007, the Ministry expenses were $950 million. The largest expense was $464 million for interest and related expenses.

ATB

ATB, operating as ATB Financial, is a provincial agency accountable through its Board of Directors to the Minister of Finance. ATB provides a range of financial services including accepting deposits and making loans to Albertans and businesses. ATB has also established subsidiaries to distribute mutual funds and trade securities for customers.

Websites for both Ministry and ATB

For more information on the Ministry and its programs, see its website at www.finance.gov.ab.ca. For more information on ATB, see its website at www.atb.com.

Scope: what we did in our audits

1. Systems

We examined whether the Ministry had overpaid tax refunds to a retailer for purchases in excess of the weekly tobacco limit under the Alberta Indian Tax Exemption program.

We followed up on our previous years' recommendations on:

- relying on Canada Revenue Agency
- monitoring private sector pension plans

2. Performance reporting

We audited the financial statements of the Ministry and the Department for the year ended March 31, 2007. We also applied specified auditing procedures to the performance measures in the Ministry's 2006–2007 annual report.

3. Other entities that report to the Minister

3.1 Systems—Alberta Treasury Branches

We examined three areas: processes for ensuring compliance with Alberta Finance's Outsourcing Guideline, information technology control framework, and the general loan loss allowance.

3.2 Performance reporting—Alberta Treasury Branches

Financial statement audits at ATB

We audited the financial statements of ATB for the year ended March 31, 2007. We also completed review engagements for ATB's quarterly financial statements. In addition, we audited:

- ATB's Management Pension Plan for the year ended December 31, 2006.
- financial statements for the year ended March 31, 2007 for the three subsidiaries of ATB:
  - ATB Investment Services Inc.
  - ATB Investment Management Inc.
  - ATB Securities Inc.

Compliance audits at ATB

A public accounting firm performed compliance audits of ATB's three subsidiaries and reported directly to the applicable regulatory bodies. We reviewed the results of these audits:

- Mutual Fund Dealers Association of Canada's Financial Questionnaire and Report as at March 31, 2007
- Investment Dealers Association of Canada's Joint Regulatory Financial Questionnaire and Report as at March 31, 2007
- Compliance with applicable sections of National Instrument 81–102 as required by the Alberta Securities Commission for the year ended March 31, 2007

3.3 Systems—Alberta Securities Commission

We followed up the outstanding 2005 recommendations to improve the Commission's enforcement system.

3.4 Performance reporting—other entities

Other entities consolidated in Ministry financial statements

We audited the following entities consolidated within the Ministry:

For the year ended March 31, 2007:

- Alberta Cancer Prevention Legacy Fund
- Alberta Heritage Savings Trust Fund
- Alberta Heritage Foundation for Medical Research Endowment Fund
- Alberta Heritage Scholarship Fund
- Alberta Heritage Science and Engineering Research Endowment Fund
- Alberta Risk Management Fund
- Alberta Securities Commission
- N.A. Properties (1994) Ltd.
- Provincial Judges and Masters in Chambers Reserve Fund
- Supplementary Retirement Plan Reserve Fund

For the year ended December 31, 2006:

- Alberta Capital Finance Authority
- Credit Union Deposit Guarantee Corporation
- Alberta Pensions Administration Corporation
- Alberta Local Authorities Pension Plan Corp.

For the year ended September 30, 2006:

- Gainers Inc.

In addition, we examined the financial statements, management letters, and audit files for the year ended December 31, 2006 for Alberta Insurance Council, a Crown-controlled corporation consolidated with the Ministry. A public accounting firm audits the Council.

Entities not consolidated in Ministry financial statements

We also audited the financial statements of the following entities that are not consolidated with the Ministry:

For the year ended March 31, 2007:

- ARCA Investments Inc

- Consolidated Cash Investment Trust Fund.
- Provincial Judges and Masters in Chambers (Registered) Pension Plan

For the year ended December 31, 2006:

- Local Authorities Pension Plan
- Management Employees Pension Plan
- Public Service Management (Closed Membership) Pension Plan
- Public Service Pension Plan
- Special Forces Pension Plan
- Supplementary Retirement Plan for Public Service Managers

3.5 Performance reporting—Alberta Heritage Savings Trust Fund

We completed reviews of the Alberta Heritage Savings Trust Fund's quarterly financial statements.

Our audit findings and recommendations

1. Systems

1.1 Alberta Indian Tax Exemption program limits

Recommendation

We recommend that the Ministry of Finance assess the risk of paying tax refunds for individuals exceeding the tax-exempt tobacco limit of the Alberta Indian Tax Exemption program, and reduce the risk if it is too high.

Background

Exempt from tax

Under the Alberta Indian Tax Exemption program, eligible Indian consumers are exempt from paying Alberta tax on tobacco products bought on Indian reserves in Alberta for their own use. There is an exemption limit of 400 grams (two cartons of cigarettes) per calendar week (Monday to Sunday). In the fiscal year ending March 31, 2007, the Ministry paid approximately $30 million to retailers under this program.

Two systems—paper and electronic

Approximately half of retailers use a manual paper system to keep track of purchases under this program; the other half uses an electronic system. The electronic system, with a one-day time lag, identifies individuals who have exceeded their weekly limits. Under the paper system, retailers keep and then send vouchers to the Ministry for tax-exempt refunds.

The Ministry's audit group randomly checks retailers to ensure retailers are not allowing ineligible consumers to purchase tax-free cigarettes. The Ministry takes corrective action where necessary.

Criteria: the standards we used for our audit

The Ministry should not pay refunds to retailers for purchases in excess of an individual's weekly tobacco limit of 400 grams.

Our audit findings

Exceeded limit

Using the paper system, neither the retailer nor the Ministry can easily detect if a purchaser of tobacco has exceeded his or her weekly limit. For one retailer using the paper system, 17 of 219 purchasers had exceeded their weekly limit, and one person had exceeded his weekly limit by 595 grams. These figures were based on all the vouchers the retailer sent to the Ministry over a two-week period. In total, over a two-week period, this retailer exceeded the limit by 2,295 grams of tobacco, which is equal to a tax refund overpayment of $370. Because the paper system does not track purchases throughout the province, individuals could buy more tobacco at other locations, further exceeding the limit.

Overpayments not detected

Neither the retailer nor the Ministry detected these overpayments. The Ministry did not detect them because it does not typically review the vouchers from the paper system before paying refunds. The electronic system would have detected them.

Paper system may have higher risk

It's not clear if this retailer is indicative of all retailers that use the paper system, but there appears to be higher risk of overpayment with the paper system. The Ministry needs to evaluate this risk and reduce it if it is too high.

Implications and risks if recommendation not implemented

The Ministry's refunds to retailers may be too high.

1.2 Journal entries

Recommendation

We recommend that the Ministry of Finance ensure that staff properly approve journal entries. We also recommend that the Ministry of Finance properly segregate the incompatible functions of preparing and approving them.

Background

Journal entries record non-routine transactions

Journal entries are used to record transactions and their dollar values into the general ledger. The values in the general ledger are used to prepare the financial statements. Journal entries can be used to reclassify items, correct errors or record transactions that are not generated automatically through the accounting system. Material misstatements of financial statements due to fraud often involve the manipulation of the financial reporting process by recording inappropriate or unauthorized journal entries.

Criteria: the standards we used for our audit

Proper financial risk management requires that the person approving a journal entry be a different person from the one who prepared, batched, or entered the journal entry into the financial system. Due to the potential risks of journal entries, the Ministry should:

- ensure that someone with strong accounting knowledge approves journal entries, and
- properly segregate incompatible duties of preparing and approving journal entries.

This ensures that at least two people see each journal entry and reduces the risk of error.

Our audit findings

Journal entries not approved

We tested 30 journal entries and found that 18 lacked evidence of approval. The Ministry said that the accounting officer will spot check some of these entries during the daily balancing process; however, this does not include every entry. Therefore, in many cases, only the preparer will see the journal entry. None of the journal entries we examined were inappropriate.

Implications and risks if recommendation not implemented

The Ministry could fail to detect manipulation of the financial statements through incorrect or fraudulent journal entries.

1.3 Obtaining assurance on third party service providers

Recommendation

We recommend that the Tax and Revenue Administration Division of the Ministry of Finance ensure that controls over Ministry information assets hosted or administered by third party service providers are documented and operating effectively.

Background

Outsourced operations

Tax and Revenue Administration (TRA) relies on its computing environment to provide complete, accurate, and valid data for use in the ongoing business activities within the Ministry of Finance. TRA has outsourced the managed operations and application management services of its main financial and non-financial information systems to a private sector service provider. Outsourcing can be an efficient and effective means by which to obtain necessary information technology (IT) services. However, organizations that outsource all or part of their IT infrastructure or operations are still responsible for ensuring that service levels are met, and that there are appropriate controls over the security, confidentiality, integrity, and availability of information assets.

Criteria: the standards we used for our audit

TRA management should ensure that a properly documented and designed IT general control environment is operating effectively throughout the whole organization, including outsourced environments, to mitigate any identified or inherent risks.

Our audit findings

TRA is dependent upon their main service provider for the daily operations of financial and critical business systems.

Undocumented processes

We found that the Ministry follows undocumented control processes to ensure that third party service providers meet contractual and service level requirements. We were unable to determine if the undocumented control processes were designed adequately to mitigate any inherent risks in the control environment.

We were unable to find adequate evidence that controls in place were consistently followed and operating effectively throughout the fiscal year.

Service assurance process drafted

TRA has drafted a service assurance process to monitor the main outsourced vendor's compliance to the service level agreements in the contract and to ensure that TRA information assets remain secure. This service assurance process had not commenced as of March 31, 2007.

Implications and risks if recommendation not implemented

TRA is ultimately responsible for the confidentiality, integrity, and availability of its information—even if:

1. it has outsourced some or all of its IT control environment, and
2. controls that protects its information are—even partly—physically and operationally removed from its direct oversight.

The outsourced environment is an integral part of TRA's IT control environment. Without procedures to ensure that service providers maintain sound control environments TRA cannot depend on the confidentiality, integrity or availability of its important business, financial or other sensitive information.

1.4 Reliance on Canada Revenue Agency—implemented

Background

Ministry relies on CRA

In our *2003–2004 Annual Report* (No. 27—page 275), we recommended that the Tax and Revenue Administration division of the Ministry of Revenue (now Ministry of Finance) justify its reliance on the compliance audit activities of the Canada Revenue Agency (CRA). The Ministry relies

almost completely on CRA's compliance audit activities for corporate taxable income. And it had not obtained information from CRA on its audits of small and medium-sized enterprises (SMEs).

Our audit findings

Obtained information from CRA

The Ministry implemented the recommendation. It obtained information from CRA on the audit results and audit coverage of SMEs. It compared those results to the results of its own audit activities in other programs and decided that it would not be cost efficient to supplement CRA's audit activities. The Ministry plans to request this information yearly from CRA and perform the same analysis.

The Federal Auditor General is planning to audit CRA's compliance audit activities in the next few years. We will stay in contact with them and may become involved in that audit. When the results of the audit are available, the Ministry should have more information with which to assess whether it can rely on CRA's compliance audit activities. We will then reassess whether we should make another recommendation.

1.5 Monitoring private sector pension plans

1.5.1 Compliance monitoring framework—implemented

Background

On page 152 of our *2003–2004 Annual Report* (No. 14), we recommended that the Office of the Superintendent of Financial Institutions ensure that compliance staff:

- promptly review and follow-up on compliance information obtained from private sector pension plans
- receive appropriate training to effectively discharge their responsibilities

On page 152 of our *2003–2004 Annual Report* (No. 15), we recommended that the Office of the Superintendent of Financial Institutions improve its processes for monitoring private sector pension plans by:

- preparing a risk-based annual plan for its compliance monitoring program that identifies resources required to effectively carry out the plan
- reporting the results of regulatory activities by compliance staff to senior management
- updating its policies and procedures manual

Our audit findings

Implemented

The Office has implemented these recommendations. It now requires more pension plans to submit audited financial statements, and it promptly reviews all submitted information. It developed and implemented a formal competency and training program, and there is now adequate documentation of supervisory review and involvement in the compliance monitoring process. The Office prepares a risk-based annual plan that sets out which pension plans to examine. And it now has a comprehensive policies and procedures manual to guide the compliance monitoring process.

1.5.2 Requesting additional information—implemented

Background

On page 156 of our *2003–2004 Annual Report* (No. 16), we recommended that, for high-risk employer pension plans, the Office of the Superintendent of Financial Institutions obtain:

- assurance from pension plan auditors on the plans' compliance with the *Employment Pension Plans Act*, Regulation and plan document
- information on pension plan governance structure and practices

On page 156 of our *2003–2004 Annual Report*, we recommended that the Office of the Superintendent of Financial Institutions obtain audited plan financial statements from all employer pension plans.

Our audit findings

Implemented

The Office has implemented these recommendations. It confirms that pension plans comply with legislation through on-site examinations, desk reviews, and ongoing compliance activities. The Office encourages pension plan administrators to achieve and maintain good governance practices, and will assess a plan's governance during on-site examinations. If it sees evidence of poor governance in plans that are not the subject of an on-site examination, the Office will review governance practices. The Office now requires pension plans whose assets meet a certain threshold to submit audited financial statements.

1.6 Alberta Investment Management

Audit of investments

We audited the investments managed by Alberta Investment Management (AIM). AIM manages investments with a market value of approximately $70 billion for clients including pension funds, the Alberta Heritage Savings Trust Fund, endowment funds and other Alberta government funds and entities. It manages investments in both pooled and segregated funds. Investment categories include fixed income, equities, private and alternative investments. Our work included testing of internal controls over the purchase, sale and recording of investment balances and income. Our

review of internal control over financial reporting included an audit of the Information Technology General Computer Controls.

1.6.1 Controls over derivative contracts

Recommendation No. 25

We recommend that Alberta Investment Management improve internal controls over its use of derivative contracts by:

- **monitoring the credit worthiness of approved derivative counterparties**
- **obtaining derivative confirmations from counterparties**
- **tracking missing and incomplete derivative confirmations**
- **confirming the details of forward contracts with counterparties**

Background

Extensive use of derivative contracts

Derivatives are financial instruments or contracts whose value is derived from the value of an underlying security or asset. AIM uses derivatives when investing in equity, fixed income, credit and foreign currency markets. AIM uses derivative contracts to hedge or modify foreign currency exposure, to replicate equity or bond index returns, to change a portfolio's (equity/bond) asset mix and to provide downside market protection. AIM uses many types of derivative contracts including interest rate and cross-currency interest rate swaps, forward foreign exchange contracts, equity index swap contracts, credit default swap contracts, bond index swap contracts, equity index futures contracts and swap option contracts. A swap is a contractual agreement between two counterparties to exchange a series of cash flows.

Swap counterparties should have good credit ratings

AIM has a policy of only engaging in swap transactions with counterparties who have good credit ratings. Counterparties are designated as approved if they have the required credit rating and they have signed an indemnity agreement with AIM.

The swap confirmation is the legal contract

AIM investment traders enter into swap transactions by means of an unrecorded telephone order. In order to ensure there is agreement of the terms of the contract, the counterparty sends a swap confirmation to AIM. The confirmation is the legal contract for the swap and should be signed by representatives of both counterparties.

Missing and incomplete swap confirmations must be followed up

The investments managed include hundreds of swap contracts. The logging, monitoring and follow-up of missing and incomplete swap confirmations is a key control to ensure that swap confirmations have been obtained and that they are accurate, properly authorized and legally valid.

Criteria: the standards we used for our audits

AIM should get signed confirmations from all the parties it enters into swap transactions with. Both parties to the transaction should sign the confirmation. Missing confirmations should be followed up and monitored.

Our audit findings

Missing and incomplete swap confirmations are not followed up on a timely basis

- The listing of approved swap counterparties included a counterparty with a credit rating below the minimum requirement;
- 30% of the equity index contracts selected for testing did not have completed confirmations, some of which were outstanding for more than 7 months;
- AIM did not keep a complete listing of missing and incomplete swap confirmations;
- Forward contracts were not being confirmed.

Implications and risks if recommendation not implemented

Risk of losses

AIM may enter into swap transactions with counterparties without good credit ratings, exposing AIM clients to potential losses from business failures. If swap confirmations are not completed promptly for all swap contracts, and missing confirmations followed up and monitored, there may be contracts with disputed terms, exposing AIM clients to risk of loss.

1.6.2 Controls over private investments

Recommendation

We recommend that Alberta Investment Management improve internal controls over private equity investments by:

- **confirming the receipt of funds disbursed to private equity partnerships**
- **directing funds received to a separate private investment administration group for deposit and recording of transactions**
- **reconciling investment interests in private equity partnerships to audited partnership financial statements**

Background

AIM makes private equity investments

Investments in private equities are primarily held through interests in limited partnerships in which the Crown holds direct ownership or through a Crown corporation which holds the Crown's partnership interest. These partnerships may be located in Canada, the United States or outside North America. Funds are authorized for investment in private equity pools by the AIM Investment Committee but will not be disbursed until a request is received from the partnership. These investments are managed internally for AIM by private equity portfolio managers. Cash disbursements to the partnerships and cash receipts back from the partnerships are initiated, collected and recorded by the private equity portfolio managers. Externally

audited financial statements are prepared for these partnerships annually and are obtained by AIM.

Criteria: the standards we used for our audits

- Funds disbursed to private equity partnerships should be confirmed.
- Segregation of duties should be maintained between the portfolio management and administrative functions for private equity investments.
- Investments in private equities should be reconciled to externally prepared financial statements on a regular basis

Our audit findings

Lack of segregation of duties between private equity portfolio management and administrative functions

AIM private equity portfolio managers do not confirm the receipt of funds paid to the private equity partnerships. Cash distributions from the partnerships are directed to the AIM private equity portfolio managers for deposit and recording of transactions rather than to the AIM investment administration group. The lack of segregation of duties between the private equity portfolio management function and the administrative functions over funds payment, funds deposit and transaction recording is inconsistent with the segregation of duties used for other types of investment transactions at AIM. Although audited financial statements are received for each private equity investment approximately six months after their year end, the partnership capital accounts from these financial statements are not compared to AIM investment records.

Implications and risks if recommendation not implemented

Risk of fraud or error

Improper segregation of incompatible functions is a primary cause of fraud and error. Failure to confirm assets with independently prepared records unnecessarily delays identifying any fraud or error.

1.6.3 Access and change management controls

This recommendation, first made to AIM in a 2004 management letter, is repeated since the rate of progress in implementation is too slow.

Recommendation

We recommend that Alberta Investment Management establish access and change management controls for its investment-related computer information systems.

Criteria: the standards we used for our audits

The organization should have documented policies and control procedures so that all access to all investment-related and support systems is properly requested, approved, implemented, reviewed regularly, and terminated when no longer required.

The organization should also have documented policies and control procedures to ensure that all changes to all investment-related and support systems are properly requested, tested and approved before being migrated to the production systems, and that there is appropriate segregation between the requestor, developer, tester, and implementer of all changes.

Our audit findings

Access and change management controls for computer information systems are not adequate

We did not find adequate controls to ensure that all access is appropriate, that all user accounts within all investment related applications are regularly reviewed for ongoing business need and that the access is appropriate for the job function. Also, we were unable to obtain and review a documented change management control process—we sought evidence that all changes to systems related to or supporting investment management were requested by an approved person, were properly tested and approved to be moved to the production system, and that there was appropriate segregation between the requestor, approver, developer, tester and implementer of the changes.

Implications and risks if recommendation not implemented

Without appropriate Information Technology controls, AIM may not be able to rely on its data, applications and systems to provide complete, accurate and valid information that is appropriately restricted.

2. Performance reporting

Unqualified reports

Our auditor's reports on the March 31, 2007 financial statements of the Ministry and the Department of Finance are unqualified.

No exceptions noted

We found no exceptions when we completed our specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

3.1 Systems—Alberta Treasury Branches

3.1.1 Processes to confirm compliance with Alberta Finance Guideline

Recommendation No. 26

We recommend that Alberta Treasury Branches:

- improve the processes for confirming its compliance with the Alberta Finance *Outsourcing of Business Activities, Functions and Processes Guideline*.
- review and assess which ATB staff should be responsible for ensuring compliance with the Alberta Finance *Outsourcing of Business Activities, Functions and Processes Guideline*.

Background

Executives confirm compliance with Act, Regulation and Guidelines

ATB has a process in place to ensure it complies with the *Alberta Treasury Branches Act, Alberta Treasury Branches Regulation,* and Alberta Finance guidelines. Executives must confirm—through a compliance certificate—that ATB is complying with the *Act, Regulation,* and guidelines. In total, ATB prepares 34 certificates of its compliance with the Act, Regulations and guidelines.

ATB must follow Minister of Finance Guideline on outsourcing

The Minister of Finance issued a guideline titled, *Outsourcing of Business Activities, Functions and Processes Guideline* (the Guideline) on July 19, 2004. It details the Minister of Finance's expectations for ATB when considering outsourcing business activities. ATB has developed an Outsourcing Policy (the Policy) that matches the Guideline. In addition to the Guideline and Policy, ATB has developed a Financial Sourcing Guidebook (the Guidebook) that applies to all significant outsourcing arrangements.

Guideline provides direction on outsourcing

The Guideline provides direction on accountability and control, materiality assessments for outsourcing arrangements, and risk management programs for outsourcing arrangements. The Guideline contemplates a transition period for ATB to bring outsourcing arrangements—already existing when the Guideline was issued—into compliance with the Guideline.

ATB prepared a compliance certificate for the Guideline in August 2006. The certificate identified four material outsourcing arrangements.

We examined outsourcing compliance certificate

We examined ATB's process for making its assertion in one of the 34 compliance certificates. Our work focused on the Alberta Finance *Outsourcing of Business Activities, Functions and Processes Guideline*.

Criteria: the standards we used for our audit

ATB should have systems and processes in place to ensure it complies with the Guideline, including systems and processes to:

- evaluate the risks of all existing and proposed outsourcing arrangements;
- assess the materiality of outsourcing arrangements;
- implement a program for managing and monitoring risks, depending on the materiality of the outsourcing arrangements; and
- ensure that ATB's Board of Directors receives sufficient information to meet its duties under the Guideline.

ATB should clearly assign responsibility for ensuring compliance with the Guideline.

Our audit findings

Processes for confirming compliance

Systems and processes are not operating effectively

ATB's systems and processes underlying the assertion in the compliance certificate are not operating effectively for the *Outsourcing of Business Activities, Functions and Processes Guideline*.

Risk assessments not documented

- **Evaluating risk**—there's insufficient evidence that ATB evaluated the risks of its existing and proposed outsourcing arrangements. There's also insufficient evidence that it evaluated risks for all material outsourced arrangements, as the Guideline requires.

Materiality assessment not done or not complete

- **Assessing materiality**—ATB has developed a process to assess if an outsourced arrangement is material. It did a materiality assessment for a material outsourcer with a contract finalized after the Guideline was issued, but that assessment was not approved by ATB management. ATB cannot show that it used its materiality-assessment process for all of its outsourcing arrangements entered into since the Guideline came into effect.

  The signed compliance certificate included four material outsourcers identified by Information Technology (IT) staff. However, several other ATB business units use outsourced arrangements that the IT staff had not considered when assessing compliance with the Guideline. These arrangements include those relating to:
  - MasterCard,
  - Electronic Banking which includes Online banking and Interac, and
  - Central Services (application systems for Registered Income Funds and Registered Education Savings Plans)

Risk management program not evident

- **Managing and monitoring risk**—there's insufficient evidence that ATB implemented a program to manage and monitor risks for material outsourced service providers, other than the governance program IT implemented for the outsourcer that administers ATB's banking system. Further, for this arrangement, ATB was unable to show that it met all requirements under the *Risk Management Program for Material Outsourcing Arrangement* section of the Guideline.

  The Policy also states the Sourcing Assurance group will semi-annually assess compliance with best practices outlined in the Guidebook and identify internal processes that require attention. This monitoring process is not occurring.

Board of Directors does not receive adequate reporting

- **Informing the Board of Directors**—there's no evidence that the Board of Directors receives appropriate and sufficient information to meet its duties under the Guideline and Policy. The Guideline states that the Board should review a list of all ATB's material outsourcing arrangements and other relevant reports when appropriate. The Policy states that "Management will also provide annual summary reporting on the health of each outsourcing relationship previously approved by the Audit Committee and the Board of Directors."

Assigning responsibility for compliance

Responsibility for Guideline compliance should be shared by IT and business units

Responsibility for compliance with the Guideline was assigned to IT. However, assessing compliance requires a joint effort of IT and the business units. Many ATB business units—in addition to IT—use outsourcing. For the four material outsourcers the compliance certificate identifies, IT is not fully responsible for managing three of the outsourced business processes. At least partial responsibility for those arrangements is with other ATB business units.

Implications and risks if recommendation not implemented

ATB is ultimately accountable for all outsourced activities. Without proper controls and processes, ATB may be unable to rely on the confidentiality, availability, completeness, and validity of ATB client and financial data that outsourcers handle.

3.1.2 Information technology control framework

Recommendation

We recommend that Alberta Treasury Branches implement an effective organization-wide information technology (IT) control framework.

Background

IT control framework is a critical element in ensuring proper IT controls

An IT control framework can be a critical element in ensuring proper controls over ATB's information and the systems and processes that create, store, manipulate, and retrieve ATB's client and financial data. Such a control framework can help Alberta Treasury Branches bridge the gap between control requirements, technical issues, and business risks.

A control framework gives management and IT users a set of generally accepted measures, indicators, processes and best practices to help them maximize IT benefits with appropriate IT controls. Organizations can mitigate risks by using a control framework to develop clear IT policies and good practices for IT controls.

Criteria: the standards we used for our audit

To implement an effective organizational-wide IT control framework, ATB should:

1. identify and adopt an organization-wide IT control framework.
2. do an organization-wide risk assessment to identify risks to ATB information assets, which IT controls can mitigate.
3. design and implement adequate controls to mitigate the risks.
4. assess the operating effectiveness of IT controls.
5. implement a process to sustain IT controls over the long-term and periodically review the controls for design adequacy and operating effectiveness.

Our audit findings

ATB selected a framework but still must implement the framework

ATB has chosen Control Objectives for Information and related Technology (COBIT) as its IT control framework, however the framework has not been fully implemented by ATB.

ATB has not completed an organization-wide IT risk assessment. As a result, ATB cannot clearly identify and support its decision on which IT controls can best mitigate its risks.

ATB has started designing and implementing IT controls

ATB has recently started designing and implementing its IT control framework which will assist ATB in mitigating known IT risks in its computing environment. However, ATB currently does not have:

- processes in place to ensure that IT controls are properly designed and implemented, and operating effectively.
- a process to sustain its IT controls over the long-term and improve IT control design adequacy and operating effectiveness.

Implications and risks if recommendation not implemented

Without an appropriate IT control framework, ATB cannot identify all risks to its IT assets, and cannot effectively manage or mitigate all risks. Nor can it show that it has done so. As a result, the entity cannot rely on its data, applications, or systems to provide complete, accurate and valid information. Ultimately, it cannot ensure that it meets its business goals effectively.

3.1.3 General loan loss allowance

3.1.3.1 Model validation

Recommendation

We recommend that Alberta Treasury Branches annually validate the general loan loss allowance (GLLA) model against actual loan-loss data and modify the model based on the results of the validation. We further recommend that ATB report the validation results and the controls in the model to the Audit Committee so it can assess the reasonableness of the GLLA estimate.

Background

Estimates need to be compared to actual results

ATB's GLLA policy states, "after calculating the total proposed general allowance, tests will be performed to confirm the reasonableness of the calculations including...review of the allowance against actual loss results over the past two-year cycle, back testing allowance estimates relative to actual results."

Criteria: the standards we used for our audit

ATB should

- regularly measure the model's effectiveness against the data it is designed to estimate—in this case, actual loan losses.
- use the results of this analysis to refine the model and communicate the results and refinements to oversight bodies, in this case, the Audit Committee.

The Audit Committee should:

- understand ATB's GLLA estimate, including the data and assumptions in the GLLA estimate.
- understand management's processes and controls for ensuring the accuracy and validity of the GLLA model results and be satisfied that the estimate is based on realistic assumptions, which are regularly updated.
- obtain from management, at least annually, a retrospective analysis as to how historical GLLA estimates have compared with actual results. This would include an assessment of actual amounts and the events that caused them to differ from estimates.

Our audit findings

Comparing model estimates to actual loan losses, refining the model and communicating the results

Estimates not compared to actual results on an annual basis

ATB does not annually compare its actual loan-loss experience to the GLLA. The last analysis was completed in November 2005, when it analyzed loan-loss data for the six quarters ended March 2003. ATB did not communicate the results of the November 2005 analysis to the Audit Committee.

Review of analysis not required by management or Audit Committee

While the November 2005 analysis was factored into the new GLLA model implemented in 2006–07, the new GLLA policy does not require management or the Audit Committee to review such analysis. Nor does it require ATB to refine the model if it finds significant differences between the GLLA estimate and actual losses or communicate those refinements to the Audit Committee.

The Audit Committee role

New policy approved in August 2006

The Audit Committee approved the General Loan Loss Allowance policy at its August 2006 meeting. The meeting included an overview from ATB management for the Audit Committee on how the policy was to be applied, including the data and assumptions the model uses. This overview provided the Audit Committee with a basic understanding of the estimation process and the data and assumptions used in the model.

Audit Committee does not receive reporting on historical losses compared to estimates

The Audit Committee has not received retrospective reporting from management on the actual results compared to the estimated GLLA and reporting on the events that caused the actual results to differ from the estimates.

Implications and risks if recommendation not implemented

Without doing an annual analysis of the GLLA estimate-to-actual losses, ATB cannot measure the model's effectiveness. Without such analysis, those in oversight roles do not have sufficient information to understand the validity of the GLLA estimate or the need to improve the model's accuracy.

3.2 Performance reporting—Alberta Treasury Branches

Unqualified opinions for ATB and its subsidiaries' financial statements and compliance audits

ATB—we issued unqualified auditor's opinions for all of the financial statement audits we completed during the year for ATB and its subsidiaries listed in section 3.2 of Scope. A public accounting firm issued unqualified auditors' reports for the compliance audits for these subsidiaries.

3.3 Systems—Alberta Securities Commission

3.3.1 Enforcement system—implemented

Background

Five remaining recommendations from our 2005 report

Last year, we reported that the Alberta Securities Commission had responded effectively to our 2005 recommendations to improve its systems for enforcement, conflicts of interest and governance. Five of our ten recommendations were implemented and satisfactory progress was made on the remainder. This year, our follow-up audit satisfied us that the remaining five recommendations have been implemented.

Our audit findings

All recommendations now implemented

The Commission has now fully implemented all recommendations arising from our 2005 audit. Our findings on the status of the 5 remaining recommendations now follow:

Review and clarification of policies and guidelines—implemented

Enforcement manual developed

An enforcement procedures manual was developed. We reviewed the manual and found it complete, reasonable and appropriate. We also reviewed enforcement files and concluded that enforcement activities complied with the manual.

Measurement of enforcement program performance—implemented

Key performance indicators are tracked

A well-designed system of tracking key performance indicators has been developed and is being refined as the Commission continues to investigate how other enforcement agencies measure performance. Broader national performance indicators contemplated by the Canadian Securities Administrators have not yet developed sufficiently to provide value to the Commission.

Monitoring compliance with conflict-of-interest policies—implemented

Potential conflict of interest managed appropriately

Potential conflicts of interest by Members and employees are being managed appropriately and in accordance with an updated policy. Members and employees provide disclosure statements of securities trading activity to the Commission Chair (for Members) and the Executive Director (for employees). Disclosure statements are routinely examined and considered in the context of ongoing enforcement matters. Potential conflicts are followed up and resolved.

New conflict-of-interest policy

Strengthening conflict-of-interest policies—implemented

A strong conflict-of-interest policy has been developed and implemented. Disclosure requirements for securities trading by Members and employees are clearly defined. Prior to the commencement of an enforcement hearing, Members must complete a declaration that they have no conflict of interest with respect to a matter to be heard.

Stronger internal controls

Assessment of enforcement system's internal controls—implemented

Regular and frequent meetings on enforcement issues are held at operations, management and executive levels. Meetings are documented, and matters are resolved and signed off at appropriate levels. The Commission's internal reporting system tracks key activities and provides automated diary-date reminders as required. Periodic independent reviews of the enforcement system are planned. The Executive Director provides monthly updates to Members on enforcement activities.

3.3.2 Hosting and working sessions policies—progress report

Background

On page 198 of our *2004–2005 Annual Report*, we recommended that the Alberta Securities Commission update policies and improve controls over hosting and working session expenses.

Management actions

The Human Resources Committee approved the hosting and working sessions policies in December 2006. We will test the controls in the next audit cycle.

3.4 Performance reporting—other entities

Unqualified reports for other entities

We issued unqualified auditor's reports for all of the financial statement audits we completed during the year for the entities listed in section 3.4 of Scope.

3.5 Performance reporting—Alberta Heritage Savings Trust Fund

As requested by the Ministry, we provided interim review reports on the Alberta Heritage Savings Trust Fund's quarterly financial statements to the Minister of Finance. The reports say that we are not aware of any material changes that are needed for these financial statements to meet Canadian generally accepted accounting principles.

Health and Wellness

Summary: what we found in our audits

Systems

The Department should:

- improve how it monitors and enforces compliance with its information security policy—see page 105.
- get regular assurance over its outsourced information technology environment—see page 106.
- improve its controls over access and changes to the system that pays physicians—see page 107.

Performance reporting

Our auditor's reports on the Ministry and Department financial statements are unqualified. We did not report any exceptions on the results of applying specified procedures.

Other entities that report to the Minister

Systems

- Capital Health should review its underlying business processes to ensure that it has reliable, accurate and timely financial information to prepare its financial statements—see page 110.
- Calgary Health Region should improve its controls over its computer systems and follow its policy when awarding contracts for consulting services—see page 114.
- Alberta Cancer Board should improve its process to remove access to its computer systems for terminated employees—see page 115.
- Alberta Alcohol and Drug Abuse Commission should document and follow an information technology control framework—see page 116.

Performance reporting

1. Our auditor's report on the Alberta Alcohol and Drug Abuse Commission's financial statements is unqualified.
2. We issued unqualified auditor's opinions on the financial statements of the six Health Authorities, two Provincial Boards, and the Health Quality Council that we audit.
3. The appointed auditors of the three Health Authorities we don't audit issued unqualified auditor's reports on their financial statements.

Overview of the Ministry

Ministry entities

The Ministry consists of the Department of Health and Wellness, the Alberta Alcohol and Drug Abuse Commission, the nine Health Authorities, the Alberta Cancer Board, the Alberta Mental Health Board and the Health Quality Council.

3 core businesses

The Ministry's 2006–2009 business plan identifies three core businesses:

- advocate and educate for healthy living
- provide quality health and wellness services
- lead and participate in continuous improvements in the health system

Ministry received $3.1 billion

The Ministry collected $953 million in premiums and fees in 2006–2007, received $1,590 million from the Government of Canada, had an equity increase of $74 million from Health Authorities and Health Boards, and other income of $420 million.

Ministry spent $10.7 billion

The Ministry spent $10.7 billion in 2006–2007, for the following services:

	(billions of dollars)
Health Authorities	$ 7.3
Physician Services	2.0
Blue Cross Benefit Program	.6
All other	.8

For more detail on the Ministry, visit its website at www.health.gov.ab.ca.

Scope: what we did in our audits

1. Systems

   We examined the Department's general computer controls.

2. Performance reporting

   We audited the financial statements of the Ministry and Department for the year ended March 31, 2007. We completed specified auditing procedures on the performance measures in the Ministry's 2006–2007 annual report.

3. Other entities that report to the Minister

   We audited the financial statements for the year ended March 31, 2007, of the following other entities that report to the Minister:

   - Alberta Alcohol and Drug Abuse Commission
   - Alberta Cancer Board
   - Alberta Mental Health Board
   - Calgary Health Region, and Carewest, its wholly-owned subsidiary
   - Capital Health, and Capital Care Group Inc., its wholly-owned subsidiary
   - Chinook Regional Health Authority
   - East Central Health

- Northern Lights Health Region
- Peace Country Health

For the other entities we audit that report to the Minister, we examined general computer controls, processes to sole-source contracts, and processes to maintain accurate accounting records.

Health authorities we don't audit

We reviewed the auditor's reports and management letters of three Health Authorities that we don't audit:

- Aspen Regional Health Authority
- David Thompson Health Region
- Palliser Health Region

Our audit findings and recommendations

1. Systems

1.1 Unauthorized network connections

Recommendation

We recommend that the Department of Health and Wellness improve its procedures to enforce and monitor compliance with its Information Security Policy.

Background

Requirements for connecting other computers to the Department's systems

The Department's *Information Security Policy* states that laptops and other network equipment, such as wireless access points, must meet its security requirements before connecting to its network. The Policy also states that the Department must be aware of, and approve, all access to its systems. Products are readily available that can evaluate computers and network equipment to ensure that they comply with security restrictions before they are allowed to connect to a computer network. The Government of Alberta *Wireless LAN Access Security Policy* also states "regular detection and testing of access points is required...".

Criteria: the standards we used for our audit

The Department should:

- prevent unauthorized computers and network equipment from connecting to its network.
- monitor its offices for unauthorized wireless equipment and locate and deactivate it.
- ensure that computers and network equipment that connect to its network comply with the Department's security policy.

Our audit findings

Department tests but doesn't follow up on the findings

The Department has no automated preventative controls in place to ensure only authorized equipment connects to its network. Instead, it conducts manual ad hoc reviews of equipment connected to the network, and has detected unauthorized devices. But because of the nature of these reviews, the Department is unable to respond in a timely manner to an unauthorized device connecting to the network. In summary, the Department does not have processes in place to ensure that devices that connect to its network comply with its security policy.

Recognizing the need to safeguard its resources, the Department has hired a service provider to investigate alternative solutions.

Implications and risks if recommendation not implemented

Unauthorized individuals could access data

Unauthorized devices could expose the Department's information to unauthorized individuals.

1.2 Outsourced environment

Recommendation No. 27

We recommend that the Department of Health and Wellness obtain regular assurance that outsourced information and technology is properly controlled.

Background

Department outsources its computer systems

The Department uses two service organizations to maintain its computer systems. However, the Department is ultimately responsible for the confidentiality and integrity of its information—even though the controls that protect its information are, at least partly, physically and operationally removed from its direct control. The outsourced environment is an integral part of the Department's information technology control environment. Application and business process controls are only reliable if the general control environment in which applications run is sound. Weak general controls can make well-designed controls for applications and business processes ineffective and permit unauthorized access to critical data.

Ways to test the service provider's controls

The Department can obtain assurance that internal controls have not been compromised through a Trust Services review or a Canadian Institute of Chartered Accountants section 5970 review, which provides an opinion on the design, effective operation and continuity of control procedures at a service organization. Between complete reviews (normally done every two to three years), organizations can get ongoing assurance over the outsourced environment.

In October 2004, the Department, in collaboration with two other ministries, received a SysTrust review of their common service providers' control environments.

Criteria: the standards we used for our audit

To maintain a reliable IT general control environment throughout the whole organization the Department should obtain regular assurance on the controls in the outsourced environment.

Our audit findings

No review of controls since 2004

Since the Department last received assurance on the outsourced environment in October 2004 through a SysTrust certification, it has not obtained independent ongoing assurance on its outsourced environment. Specifically, it has not obtained adequate assurance on control environments outsourced since 2004, such as the development of new computer applications, and the maintenance of additional computer infrastructure.

The Department did not request a SysTrust review in 2006 because it was not certain who the service provider would be—the government was developing its Information and Communications Technology initiative. It plans to obtain ongoing assurance on their outsourced environment beginning in the next fiscal year.

Implications and risks if recommendation not implemented

Risk that Department's data could be changed

The outsourced environment is an integral part of the Department's IT control environment. Without procedures to ensure that service providers maintain sound control environments, the Department cannot depend on the confidentiality, integrity or availability of its important business, financial, or other sensitive information.

1.3 Claims assessment system

Recommendation

We recommend that the Department of Health and Wellness improve access and change-management controls in the Claims Assessment System.

Background

Documentation of systems necessary

Organizations use manuals and reference materials to retain knowledge, especially in times of high staff turnover. This technical information is then available for reference when deciding, within a computer system, whether employees have been granted appropriate access for their jobs.

Organizations use a change-management process to formally control changes to the infrastructure and applications.

Service provider claims processed electronically

Service providers receive payments through a fee-for-service system. To receive a fee-for-service payment, providers submit a claim electronically to Alberta Health & Wellness (the Department), where the Claims Assessment System (CLASS) assesses it.

Reliability of calculations depends on accuracy of data-tables

CLASS reviews claims for compliance with the Schedule of Medical Benefits (Schedule), under the *Alberta Health Care Insurance Act* and Regulations. CLASS evaluates the claim against criteria defined in program code rules, procedure lists, fee-schedules, edit-and-validation checks, and data-tables. The reliability of CLASS calculations depends on the accuracy of these data-tables. Alberta health service providers submit about 39 million service claims per year.

Criteria: the standards we used for our audit

Management should ensure that:

- business owners conduct regular reviews of access assignments to CLASS,
- documented manuals and references for CLASS exist so that job functions are not affected if key staff members leave,
- any unauthorized activity in CLASS can be identified, and proper segregation of duties exists between incompatible job functions,
- a change-management process exists that allows for only approved changes to be made to CLASS.

Our audit findings

No formal process to review access

Access—the Ministry randomly reviews access to CLASS—it has no formal, documented review process. Users get access to CLASS based on their job. Access is assigned through profiles, with pre-set roles that control what users can do.

The system can produce a report of each user's access profile. But the report is not detailed enough to show the specific data tables an employee can access. Using this report, a security administrator would have difficulty assessing appropriateness of access. A security administrator should review overall access directly through the system, but without a documented process, there is no evidence this review occurs.

Department had not tested who had changed data-tables

Review of table-modification reports—the Ministry has many users with access to both the test and the production environments. The Ministry can create a table-modification report to identify changes to data-tables. Review of this report would reveal any unauthorized changes. The Ministry had not run a table-modification report until we requested one in March 2007. Therefore, the Ministry could not identify unauthorized changes to CLASS. The Ministry subsequently created a process to have this report produced and reviewed

monthly. However, the two individuals who are responsible for reviewing this report also have authority to make direct changes to the production environment.

Design fault in the computer system

Change management—not all application and data changes move from the test environment into production. In some cases, changes are verified and quality-reviewed in the test environment and this process is repeated in the production environment.

System documentation not adequate

Reference documentation—the Department does not have adequate documentation for CLASS. Although some online manuals and references exist, we were unable to obtain any evidence that thorough documentation exists for all the data-tables that make up CLASS.

Implications and risks if recommendation not implemented

Risks to the Department

Without proper access control and change-management practices, the Department is exposed to the following risks:

- Inappropriate access to, and disclosure of, confidential information, and increase in the risk of unauthorized changes in the system.
- Inadvertent or unauthorized changes being made in the production environment.
- Inefficiencies in the change management process.

2. Performance reporting

2.1 Financial statements

2.1.1 Ministry and Department financial statements

Last year, we qualified our opinion on the financial statements of the Ministry because it did not include the health authorities and health boards. This year, we removed our qualification because the Ministry included the health authorities and health boards using the modified equity basis of consolidation.

The modified equity method of consolidation is allowed as a transition to line-by-line consolidation, which will be required for the year ending March 31, 2009.

Under line-by-line consolidation, the Ministry's capital assets would have been fully consolidated so net assets at March 31, 2007 would have increased by approximately $4.8 billion[1].

Our auditor's report on the March 31, 2007 financial statements of the Department of Health and Wellness is unqualified.

[1] Amount differs from the amount of $5.3 billion disclosed in the province's consolidated financial statements because the Ministry made a late adjustment after the province released its financial statements. This adjustment did not affect net results of the Ministry or the province.

2.2 Performance measures

We did not identify any exceptions when we completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

3.1 Capital Health

3.1.1 Capital Health—business processes

Recommendation

We recommend that Capital Health review its underlying business processes to ensure that it has reliable, accurate, and timely financial information for preparing financial statements.

Criteria: the standards we used for our audit

Capital Health should have systems and processes to enable it to prepare reliable, accurate and timely financial statements.

Our audit findings

Management reviewed all significant financial statement account balances during the 2006–2007 year end. As a result of management's efforts and correcting errors identified during the audit, the financial statements are fairly presented at March 31, 2007.

Areas to improve business processes

We have identified areas where improvement to the underlying business processes need to be made to ensure management has reliable, accurate and timely information to support their preparation of financial statements and supporting information provided to the Audit Committee during the year.

a) Purchasing system

The Authority relies on its purchasing system to identify any unpaid amounts at year end and records these amounts as accrued liabilities. At year end, accrued liabilities included amounts for which the Authority had documents indicating that goods or services had been received, but for which they had not received an invoice. Management made adjustments at year end to accruals to ensure that the liabilities were not overstated.

Review of open purchase orders needed

However, detailed review of the open purchase orders is required to determine the cause of open purchase orders for which the goods or services have been received. We noted that there are some aged purchase orders that remain in the liability account after the goods or service has been received. It is possible the obligation to the vendor has been settled through a different process than matching.

Benefit plan transactions not recorded

b) Employee benefit plans

The working papers presented for audit omitted the $14.7 million of surpluses in its employee benefit plans. This omission was corrected in the current year and retroactively applied for comparative numbers. We understand that Human Resources did not communicate this information to the Finance and Reporting Group. It is important that the Finance and Reporting Group be given adequate and timely information to ensure transactions are properly recorded in the Authority's financial records.

1,000 special purpose fund accounts

c) Special purpose fund accounts

The Authority has approximately 1,000 special purpose fund accounts for clinical trials, education funds and other purposes. Special Purpose Fund balances are included in the amount reported as deferred contributions in the financial statements. The Authority can only report amounts as deferred contributions if contributors external to the Authority stipulated that the funds must be spent for a specific purpose.

Need to review processes for accounting

Management needs to more clearly define business processes to establish, classify, provide interest, and release restricted non-research special purpose funds to ensure amounts are appropriately deferred and assessed on a timely basis. Management needs to establish category types for non-research special purpose accounts to allow for appropriate classification. Accounts where interest is to be credited need to be specified so that there is clarity on amounts payable. The policy needs to be updated regarding approval for expenditures against certain of the funds.

Implications and risks if recommendation not implemented

Management may not have reliable, accurate and timely information to prepare financial statements and supporting information for the audit committee during the year.

3.1.2 Capital Health conflict of interest—implemented

Background

In our *2000–2001 Annual Report*, we recommended that Capital Health enhance its conflict-of-interest processes. Last year we reported that to finish implementing our recommendation, the Authority needed to revise the corporate directive on conflict of interest to correct these remaining deficiencies:

- The directive did not apply to all employees—only to executives, and it did not distinguish executives from employees.
- The directive did not specify what an independent third-party review entailed, such as:
- the steps to be taken if a conflict is identified.
- whether the Authority can still contract when a conflict exists.
- the role of the Authority's oversight body responsible for governance.

Our audit findings

Corporate directive changed

Management finished implementing our recommendation. The Authority revised its corporate directive to correct these deficiencies.

3.2 Calgary Health Region

3.2.1 Calgary Health Region—change-management process

Recommendation No. 28

We recommend that the Calgary Health Region:

- **apply its uniform, formalized change-management procedures to all significant applications; and**
- **document all program changes and related controls.**

Background

Problems identified previously

Information technology (IT) infrastructure, configuration and applications supporting the financial reporting process change regularly. Last year we found that changes to its cheque writing computer program did not follow the Authority's formalized set of procedures. The Authority did not have evidence that the program changes the vendor made were appropriate. When the Authority implemented a new IT Infrastructure management tool, previously automated evidence of change approval and retention functionality was not carried forward in the conversion process.

Criteria: the standards we used for our audit

Management should ensure that changes to applications are controlled and documented.

Our audit findings

The Authority has implemented formalized change-management policies and procedures, but:

Procedures not always followed

- doesn't always follow its procedures when making changes to applications and infrastructure;
- evidence to show program change controls operating was unavailable;
- didn't document program changes; and
- gave access to the live production environment to the contracted developers for a computer system.

Implications and risks if recommendation not implemented

Risk of unauthorized changes

Non-compliance with change controls and lack of documentation for change-management exposes the Authority to unauthorized or inappropriate changes being made. It also reduces the ability of management or external parties, such as auditors, to evaluate the process retrospectively. Live production access by contracted developers exposes the Region to unauthorized changes and transactions.

3.2.2 Calgary Health Region—inappropriate user access

Recommendation No. 29

We recommend that the Calgary Health Region regularly review all user accounts and roles assigned within systems and applications for inappropriate access privileges.

Background

An essential feature of a control environment within an organization is that no employees or group of employees has inappropriate control over any transaction or group of transactions. Duties that should be segregated are:

- custody of assets
- authorization or approval of related transactions affecting those assets
- recording or reporting of related transactions

Criteria: the standards we used for our audit

The Region should have processes to:

- segregate incompatible functions review access to computer applications, and
- remove access for terminated employees.

Our audit findings

Internal Audit identified problems

We found general computer controls to be ineffective and asked the Region's Internal Audit to extend testing of controls during the year. They identified:

- 2 users had inappropriate access to the secured network drive for the cheque writing computer program.
- 11 inactive users had access privileges still assigned for purchase order (PO) creation,
- 17 users had privileges for PO creation that may not be necessary,
- 11 users had access to receive and with access for PO creation, and,
- 13 users had performed conflicting duties relating to vendor maintenance, PO creation, receiving, and the cheque writing program.

Implications and risks if recommendation not implemented

Inappropriate access to sensitive systems or privileges exposes the Region to the risk of unauthorized transactions, error, and fraud.

3.2.3 Calgary Health Region—contracting for consulting services

Recommendation No. 30

We recommend that the Calgary Health Region follow its contract-management policy and processes in awarding contracts for consulting services.

Background

To ensure that contracts are cost-effective in delivering services, contracting policies and practices must be appropriate and enforced. To respond to allegations in the Legislative Assembly about the awarding of consulting contracts, we reviewed the Region's awarding of contracts to two consultants.

Criteria: the standards we used for our audit

The Region's policy for Fair Competitive Processes and Ethical Business Practices (revised in 2002) outlines when a contract may be sole sourced without a competitive bid process. For non-patient services, the Region may sole source contracts as follows:

- Contracts less than $25,000—no requirement to document the decision.
- Contracts between $25,000 and $100,000—clear documentation of the reasons for sole sourcing and approval by the appropriate vice-president both required. Appropriate reasons include:
  - Urgent and unforeseeable situations.
  - Cases of confidentiality and privileged information.
  - Expansion of or addition to an existing system or equipment.
  - Lack of other qualified providers.
  - Competitive process not cost effective given the anticipated contract value.
- Contracts greater than $100,000—sole-sourcing is not an option; a formal competitive process is required.

Our audit findings

No support for sole sourcing two contracts

We reviewed two consulting contracts. One contract for the period November 1, 2005 to October 31, 2006 with I^3 Strategies Inc. was valued at $42,000 ($3,500 per month) and not to exceed $50,000, and did not have documented justification for the decision to sole source the contract to the consultant. The second contract with Charlebois Consulting Ltd., valued at $12,600, did not have any supporting documentation justifying the decision to sole source, which was in accordance with the policy.

In addition to these findings, we also found:

- The contract with I^3 Strategies Inc. was approved after the commencement of services.
- Evaluation of prior services rendered by the consultants were not completed.

Implications and risks if recommendation not implemented
If the Authority doesn't enforce compliance with its policies, it may enter into inappropriate contracts.

3.2.4 Calgary Health Region—Purchase of Calgary Lab Services (CLS)

On April 1, 2006, the Region purchased the remaining 50.01% interest in CLS. The purchase price was $43.6 million, of which $1.6 million was paid by settling a sub-lease with CLS and $42 million was financed using long-term debt. The purchase price exceeded the value of the net identifiable assets acquired by $25.8 million, which was recorded as goodwill.

The consolidated financial statements of the Region as at March 31, 2007 include 100% of the operating results and balances of CLS for a full year. We examined management's accounting for the CLS purchase and operations and conclude that the amounts are appropriately reported in the Region's financial statements.

3.3 Alberta Cancer Board—controls over access to computer applications

Recommendation
We recommend that the Alberta Cancer Board promptly end network and application access for terminated employees.

Background
When an employee is terminated, Human Resources or a department head tells the IT Department, who ends computer access for terminated employees.

Criteria: the standards we used for our audit
The Board should have adequate controls to end system access for terminated employees.

Our audit findings

Terminated employees still had access

Four of 15 terminated employees sampled still had access to the network and specific applications. They still had active network accounts. The Senior Application Administrator and Security Officer confirmed this.

Implications and risks if recommendation not implemented
The Board has increased risk of unauthorized and undetected access to its systems and of data manipulation. Board systems include confidential information on patients and the Board may breach that confidentiality.

3.4 Alberta Alcohol and Drug Abuse Commission—general computer controls

Recommendation

We recommend that the Alberta Alcohol and Drug Abuse Commission document and follow a comprehensive information technology control framework.

Background

Commission depends on computers

The Alberta Alcohol and Drug Abuse Commission (the Commission) depends on computerized financial and client information systems to conduct business activities and generate reliable financial reporting.

Several systems maintained

Important information technology (IT) systems that the Commission maintains include its general network environment, payroll and fee revenue receipts software, and its client treatment and tracking software, ASSIST. The Commission also relies on the government's financial accounting system.

Criteria: the standards we used for our audit

The Commission should have:

- a comprehensive IT control framework to document and implement appropriate polices and procedures.
- IT controls to safeguard its data and systems against unauthorized use, disclosure, modification, damage and loss.

Our audit findings

No framework

The Commission does not have a comprehensive IT control framework.

Although it has some documented policies and procedures currently in place, there is insufficient evidence that the majority of these policies operated effectively throughout the year.

Lack of evidence that policies operate effectively

The Commission has various informal controls or processes that are known and followed by staff. However, these control processes are not adequately documented and there is insufficient evidence the majority of these policies were operating effectively throughout the year.

Implications and risks if recommendation not implemented

The Commission may not be able to rely on its data, applications, or systems to provide complete, accurate and valid information.

4. Performance reporting—financial statements

4.1 Internal control problems at Authorities that we don't audit

Health authorities we don't audit

Background

We do not audit Palliser Health, Aspen Regional Health Authority or David Thompson Health Region. But we reviewed the management letters sent to them by their auditors. Audits are not designed to assess all key systems of control and accountability. However, auditors communicate any weaknesses to management that came to their attention when auditing the financial statements.

Our audit findings

The following weaknesses were noted by Authorities' auditors:

	Aspen Regional Health Authority	David Thompson Health Region
Processes to have service provider controls reviewed	√	
Controls to calculate employees' pensionable earnings in accordance with the Local Authorities Pension legislation	√	
Controls to pay Board members in accordance with the Alberta Government's directive	√	
Disaster recovery plans	√	
Control over access to computer systems such as payroll	√	√
Timely preparation and review of bank reconciliations		√

No recommendations were made to Palliser Health by their auditors.

4.2 Auditors' opinions on Health Authorities and Boards

We issued unqualified auditor's reports on the financial statements of the six Health Authorities, two Provincial Boards, and the Health Quality Council that we audit. Scope, on page 104 of our report, lists these entities.

The financial statements of three health authorities that we don't audit received unqualified auditor's opinions from their appointed auditors.

Infrastructure and Transportation

Summary: what we found in our audits

Systems

The Ministry of Infrastructure and Transportation should monitor highway transfer agreements to ensure that transactions are appropriately recorded in its financial statements—see page 120.

Performance reporting

Our auditor's report on the Ministry's financial statements for the year ended March 31, 2007 is unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Other audit

We issued an unqualified opinion on the annual summary of eligible expenditures of the Canada—Alberta Strategic Highway Infrastructure Program.

Overview of the Ministry

The Ministry has four core businesses:

Four core businesses

- Manage provincial transportation safety programs
- Plan, develop and manage government-owned and leased infrastructure
- Partner with municipalities, boards and other government departments and agencies to plan, develop and implement infrastructure that meets local and government needs
- Represent Alberta's interests in Canadian transportation policy

Ministry spent $2.7 billion

In 2006–2007, the Ministry spent approximately $2.7 billion on the following:

	(millions of dollars)
Municipal support program	$ 1,134
Provincial highway systems and safety	713
Infrastructure operation, preservation and expansion	439
Energy rebates	378
Emergent projects	9

Ministry received $333 million

The Ministry's revenue from sources external to the government in 2006–2007 was $333 million.

For more detail on the Ministry, visit its website at www.inftra.gov.ab.ca.

Scope: what we did in our audits

1. Systems
   We followed up on our previous year's recommendation on the physical security of government buildings.

2. Performance reporting
   We audited the Ministry's financial statements for the year ended March 31, 2007. We completed specified auditing procedures on the Ministry's performance measures.

3. Other audit
   We audited the annual summary of eligible expenditures of the Canada-Alberta Strategic Highway Infrastructure Program for the year ended March 31, 2007.

Our audit findings and recommendations

1. Systems

1.1 Highway transfers

Recommendation

We recommend that the Ministry of Infrastructure and Transportation monitor highway transfer agreements to ensure that transactions are appropriately recorded in its financial statements.

Background

The City of Edmonton and the province entered into a Highway Transfer Agreement on March 15, 2005 that transferred title, direction, control and management of the roadways and interchanges listed in the Agreement from the city to the province.

The transfer, authorized by Ministerial Order # 40/06, was effective on October 11, 2006. The following roadways and interchanges on the Southwest portion of the Edmonton Ring Road were transferred to the province:

- Highway 16 (Yellowhead Trail) from the west city limit to Anthony Henday Drive

- Anthony Henday Drive from Highway 16 to Highway 2 South
- Highway 2 South from Anthony Henday Drive to the south city limit

Tangible capital assets and net assets were increased by $96 million on both the province's consolidated financial statements and the Ministry's financial statements.

Criteria: the standards we used for our audit

The Ministry should monitor highway transfer agreements to ensure that the transactions are appropriately recorded in the financial statements.

Our audit findings

City of Edmonton transferred $96 million of assets to the province

Just days before the deadline for completing the province's consolidated financial statements, the Ministry's Finance Branch became aware of a March 2005 agreement that resulted in the transfer of assets from the City of Edmonton to the province. The Finance Branch estimated the net book value of the assets transferred at $96 million.

To support its estimate, management developed a list of capital grants paid to the City from 1989 to 2006. The list also included amounts that the City contributed to construct the roadways and interchanges during these years.

However, due to the delay in identifying this transaction, the Ministry had difficulty providing supporting documentation for the transaction by the deadline for completing the province's consolidated financial statements.

Implications and risks if recommendation not implemented

Ministry should monitor highway transfer agreements

The Ministry's financial statements could be misstated if the Ministry does not monitor highway transfer agreements and record the underlying financial transactions promptly.

1.2 Physical security of government buildings—implemented

Background

In our *2002–2003 Annual Report* (No. 28—page 187), we recommended that the Ministry improve the security of government buildings and the safety of the people who use them. Management accepted the recommendation and agreed to implement a better system. We reported satisfactory progress in our *2004–2005* and *2005–2006 Annual Reports*.

Our audit findings

Security of government buildings improved

The Ministry fully implemented the recommendation by:

- recognizing the ongoing and dynamic nature of security requirements by employing appropriate full-time staff
- continuing to deliver physical and building security awareness presentations to management and staff

- completing security reviews and cost estimates for the security needs of single-client-use buildings
- developing technical standards and criteria to ensure consistent application of security principles across all government buildings

2. Performance reporting

2.1 Financial statements

Our auditor's report contains an unqualified opinion on the Ministry's financial statements for the year ended March 31, 2007.

2.2 Performance measures

We found no exceptions when we completed the specified auditing procedures on the Ministry's performance measures.

3. Other audit

We issued an unqualified opinion on the annual summary of eligible expenditures for the Canada—Alberta Strategic Highway Infrastructure Program.

International, Intergovernmental and Aboriginal Relations

Summary: what we found in our audits

Systems

The Ministry should improve their systems for monitoring grants—see page 124.

Performance reporting

Our auditor's report on the Ministry financial statements was unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

The Ministry has five core businesses

The Ministry has the following five core businesses:

- Canadian Intergovernmental Relations
- International Relations
- Trade Policy
- Trade Promotion
- Aboriginal Governance, Economic Development and Consultation

Ministry spent $54 million

In 2006–2007, the Ministry spent $54 million on the following programs:

	(millions of dollars)
Aboriginal Governance, Consultation and Economic Development	$ 29
International Offices and Trade	13
Ministry Support Services	5
International Relations	4
Canadian International Relations	2
Trade Policy	1

No external revenue

The Ministry receives no revenue from sources external to government.

Website

For more information about the Ministry, visit its website at www.international.gov.ab.ca.

Scope: what we did in our audits

1. Systems

Financial statements

We audited the financial statements of the Ministry for the year ended March 31, 2007.

2. Performance reporting

Performance measures

We completed specified auditing procedures on the Ministry's performance measures.

Our audit findings and recommendations

1. Systems

1.1 Grant monitoring

Recommendation

We recommend that the Ministry implement an effective risk based system to ensure grant recipients comply with the terms and conditions of grants.

Background

Ministry issues $19M in grants for Aboriginal Program

The Ministry issued $19 million in grants for Aboriginal programs. The following are examples of grant programs:

- Traditional Use Studies—this program provides funding to First Nations to prepare a study identifying where aboriginal people hunt, fish and trap on public land.
- First Nations Economic Partnership Initiative (FNEPI)—this program is designed to increase First Nations participation in the economy.
- The Partnership Program—this program supports the establishment of a province-wide network of regional partnership coordinators. Regional partnership coordinators are employees of a First Nation organization and work within a specified region and with other stakeholders to pursue economic opportunities and develop regional economic partnerships.

Applications for grant must be submitted and approved

Applications for all grants are submitted to the Ministry. The Ministry reviews the applications and if the applicant is approved, the Ministry enters into a grant agreement.

Grant recipients submit accountability reports

The grant agreement specifies that the grant recipients must submit reports to the Ministry on how the funds were spent. For example, the Partnership Program Agreement requires the recipient to provide performance results reports and audited financial statements.

Criteria: the standards we used for our audit

Adequate controls should exist to ensure that grants are issued to qualified recipients and that the terms and conditions of the grant are met.

Our audit findings

Recipients do not always comply with reporting requirements

Grant recipients do not always comply with reporting requirements. In 3 of the 17 grants sampled, we found that accountability reports were not received a year after the reporting deadline. New grants funds were advanced to these same recipients even though they had not complied with the terms of the prior agreements.

Clarification of reporting timelines needed

The reporting timelines could be clarified before finalizing agreements. The reporting deadlines for financial statements specified in the grant agreements do not always match with the grant recipient's year end.

Implications and risks if recommendation not implemented

Public money may be spent on purposes other then those intended.

Justice and Attorney General

Summary: what we found in our audits

Systems

The Ministry should improve their general computer controls by:

- developing and documenting Information Technology security policies—see page 128.
- documenting and testing disaster recovery plans for all Information Technology systems—see page 129.
- improving access controls over their information systems—see page 130.
- developing and documenting Information Technology security policies that consider judicial needs for the Civil and Sheriff Entry system—see page 131.

Performance reporting

We issued unqualified auditor's reports on the financial statements of the Ministry and the Office of the Public Trustee, Estates and Trusts. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

Four core businesses

The Ministry's 2006–2009 business plan describes four core businesses:

- Prosecutions
- Courts
- Legal and strategic services to government
- Justice services to Albertans

Ministry received $143 million

Total revenue for the Ministry was $143 million in 2006–2007. The Ministry's main revenue sources are:

	(millions of dollars)
Fines and related late payment penalties	$ 65
Fees	37
Transfers from the federal government	13
Maintenance enforcement program	11
Motor vehicle accident recovery	8

Ministry spent $331 million

The total operating expenses for the Ministry were $331 million in 2006–2007, comprised mainly of:

	(millions of dollars)
The Ministry's Court Services division	$ 142
Legal services	91
Support for legal aid	43
Motor vehicle accident claims	26
Office of the Public Trustee	11
Medical examiner	6

Ministry manages trust funds

The Ministry manages trust funds of approximately $548 million. This amount includes $473 million administered by the Office of the Public Trustee.

For more detail on the Ministry, visit its website at www.gov.ab.ca/just/.

Scope: what we did in our audits

1. Systems

We examined Information Technology controls

We examined the Information Technology (IT) controls of four systems: the Civil and Sheriff Entry system (CASES), Maintenance Information Management system (MIMS), Justice Online Information Network (JOIN) and Public Trustee Information system (PTIS).

2. Performance reporting

We audited the financial statements of the Ministry and the Office of the Public Trustee, Estates and Trusts for the year ended March 31, 2007. We completed specified auditing procedures on the Ministry's performance measures.

Our audit findings and recommendations

1. Systems

1.1 Information Technology Security

Recommendation No. 31

We recommend that the Ministry of Justice develop and document Information Technology security policies.

Background

Ministry has decentralized divisions

The Ministry of Justice provides services through its divisions, which include the Department of Justice, the Ministry's Court Services division and the Office of the Public Trustee.

Criteria: the standards we used for our audit

The Ministry should:

- develop, document and publish security policies that guide all divisions in delivering Information Technology (IT) services;
- enforce compliance with these policies;
- provide regular security awareness training for staff members.

Our audit findings

No overall Information Technology security policies

The Ministry has no overall IT security policies. It has developed and documented system-specific security policies for its major IT systems, such as Justice Online Information Network (JOIN) and Maintenance Information Management system (MIMS). But it has not done so for the Civil and Sheriff Entry system (CASES), administered by the Ministry's Court Services division, or the Public Trustee Information system (PTIS), administered by the Office of the Public Trustee. The Ministry does not provide regular security awareness training for staff, nor has it defined roles or responsibilities to monitor compliance against the security policies.

The Ministry has established an Information and Technology Management Governance Committee, which is working to develop a strategic plan.

Implications and risks if recommendation not implemented

Reliability of information systems may be at risk

Without comprehensive IT security policies at the Ministry-level, security policies among the divisions may be inconsistent and compliance may not be enforced. A weakness in one IT system may disrupt normal operations for other systems and decrease the overall reliability of the Ministry's information systems.

1.2 Disaster Recovery Plans

Recommendation

We recommend that the Ministry of Justice document and test disaster recovery plans for all Information Technology systems.

Background

Overall Business Continuity Plan has identified critical systems

The Ministry of Justice has developed an overall Business Continuity Plan (BCP) for all divisions in the Ministry. The divisions update the BCP annually. The BCP has classified several Information Technology (IT) systems as critical and one of the critical IT systems has a documented disaster recovery plan. The Ministry's critical IT systems are hosted at Service Alberta's Edmonton central computing centre and at the Ministry's in-house data centre.

Criteria: the standards we used for our audit

The following key procedures should be used to develop disaster recovery plans (DRP) for all critical IT systems:

- Determine IT system recovery requirements based on the importance of the business processes as identified in the BCP;
- Establish and implement backup and recovery methodologies and techniques based on IT system recovery requirements;
- Co-coordinate and establish appropriate IT system recovery capabilities with service providers based on recovery requirements;
- Develop a testing schedule to periodically validate IT system recovery capabilities and timeframes.

Our audit findings

Disaster recovery plans required for critical systems

The Ministry does not have:

- Functional documented disaster recovery plans to guide the recovery of the systems identified as critical, within the required timelines;
- Validated backup and recovery procedures to ensure that the data can be recovered from the backup media;
- Established recovery capabilities agreed on in the service level agreement with its service provider, Service Alberta;
- Validation of the recovery procedures based on periodic tests. These tests would ensure that the Ministry can recover its critical applications and associated infrastructure in the required timelines.

Implications and risks if recommendation not implemented

Restoration of critical applications may be impaired

The lack of functional documented disaster recovery plans may delay or seriously impair the restoration of critical applications and business processes in the event of a service disruption.

1.3 Information Technology Access Controls

Recommendation

We recommend that the Ministry of Justice improve access controls over its information systems by:

- **reviewing user access rights regularly, and**
- **adopting strong password controls.**

Best password practices should be followed for critical systems

Background

The Ministry's computer systems require a valid username and password. Best practices, such as the Government of Alberta Identity and Authentication Standard and National Institute of Standards and Technology Special Publication 800-63, provide guidelines for strong passwords for critical and confidential systems such as the Civil and Sheriff Entry system (CASES), Maintenance Enforcement Management system (MIMS), Justice Online Information Network (JOIN) and Public Trustee Information system (PTIS).

Criteria: the standards we used for our audit

The Ministry should:

- document and publish a password policy that meets industry best practices.
- configure IT systems to comply with this policy.
- require IT system owners to periodically review and confirm that user access rights serve a business need and that the access level is appropriate.

Our audit findings

No review of user access to critical systems

There was no documented process to regularly review user access for the IT systems we audited: MIMS, JOIN, CASES and PTIS. The Ministry has an informal process to verify, by email, the appropriateness of access granted to the MIMS application. However, the process is not documented, nor does it verify if a user's access level is appropriate for the job.

Ministry password policy does not meet best practice

The current password policy does not meet industry best practice – users can reuse their old passwords during the same day, and the minimum password length is 7 characters. Industry best practice recommends a minimum password age policy so that passwords cannot be used again within a specified period, and a minimum password length of 8 characters.

Implications and risk if recommendation not implemented

Inadequate access and password controls increase the risk of inappropriate access to the Ministry's IT systems. This could result in unauthorized changes to critical information.

1.4 Judicial Information Technology Security

Recommendation

We recommend that the Ministry of Justice improve controls over the Civil and Sheriff Entry system by developing, documenting and implementing Information Technology security policies consistent with the guidance in the "Blueprint for the Security of Judicial Information".

Background

Best security practices should be followed for judicial information technology systems

The Ministry's Court Services division uses the "Blueprint for the Security of Judicial Information" (Blueprint) prepared by the Computer Security Subcommittee of the Judges Technology Advisory Committee, as a guide to manage information security. The Blueprint provides a model for developing effective Information Technology (IT) security policies that consider judicial needs.

Criteria: the standard we used for our audit

Criteria we used

The Ministry's Court Services division should:

- document and enforce division-level security policies that guide all divisions in delivering IT services;
- document and implement division-level IT system access controls to ensure that only authorized users can access any court system, based on their job functions;
- complete a threat risk assessment of their critical IT assets to ensure that adequate controls mitigate any risks;
- establish computer-use monitoring on all servers and network devices to screen for unauthorized access attempts and unusual use patterns;
- follow a documented change-management process that includes segregation of duties;
- provide regular security awareness training for staff members.

Our audit findings

The Ministry's Court Services division has the following IT security control weaknesses with respect to the Civil and Sheriff Entry system.

IT security policies

Information Technology security policies are not documented

Although the Ministry's Court Services division uses the Blueprint as a guide to implement IT security policies, it has not documented or enforced the policies. Policy 3 of the Blueprint states that "Courts must provide all users with ongoing awareness training and materials on IT Security." But the Ministry's Court Services division does not conduct security awareness training, and it has not assigned anyone to provide this training regularly.

Access controls

Access control processes are not documented

The Ministry's Court Services division has not documented access control processes for the Civil and Sheriff Entry system (CASES) IT system. Staff follow an informal process to request and grant IT system access: system supervisors in each court have authorization to grant access to users at that location. But there is no process to confirm the requested access by designated approvers before granting access to the CASES system. The central systems administrator for CASES completes informal user access reviews periodically. However, there is no process to complete regular

reviews to ensure that the user access is valid based on the job function. The CASES administrator in Calgary has delegated access authority to all supervisors, allowing them to request, approve and grant user access to staff in their area. But the administrator does not review the access granted, and there is no process to periodically review user access.

Threat risk assessment

Threat and risk assessment has not been performed

The Ministry's Court Services division maintains an inventory of IT assets, but does not group them by business function or classify them according to the criticality and sensitivity of information they support. Further, there is no documented evidence that the Ministry's Court Services division has done threat and risk assessments for these assets. According to policy 4 of the Blueprint "every court must plan and conduct a regular threat and risk assessment" to ensure effective safeguards are implemented to mitigate the risk. Although the Ministry has identified the CASES system as critical, the physical environmental controls, and the location of the server are not appropriate to house a critical server with no provision for system recovery. Completing a threat risk assessment would identify these and other risks.

Log monitoring

Permissible computer monitoring has not been developed

Appropriate network devices are present to capture and log network traffic. However, the Ministry's Court Services division has not developed or documented policies and procedures to indicate the types of permissible computer monitoring which will not significantly threaten judicial independence, and does not keep the logs or monitor communications.

Change management

Change management processes are not documented

The Ministry's Court Services division uses an informal process for change management, but staff don't consistently follow it. The change management process does not require appropriate approvals before changes are made in the production IT systems. In addition, there is no segregation of duties between developers and implementers—the same consulting staff members are responsible for both functions.

Implications and risks if recommendation not implemented

Reliability of information systems may be at risk

Without division-level security policies, the Ministry's Court Services division won't develop or enforce consistent policies for all systems. It may give inappropriate access to CASES if it does not regularly approve and review IT system access. Without a consistent change management process for the IT environment, appropriate scheduling, ranking and impact assessment of changes may not occur.

Municipal Affairs and Housing

Summary: what we found in our audits

Systems

The Ministry should improve their general computer controls—see page 138.

Alberta Social Housing Corporation should develop, implement, document and communicate procedures to support its capitalization policy—see page 137.

Performance reporting

Unqualified opinion

Our auditor's reports on the Ministry's, Department's and Alberta Social Housing Corporation's financial statement for the year ended March 31, 2007 are unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Other entities that report to the Minister

Performance reporting

Unqualified opinion

Our auditor's reports for the year ended December 31, 2006, on the following financial statements are unqualified:

- Improvement Districts 4, 9, 12, 13 and 24
- Kananaskis Improvement District
- Special Areas Trust Account

Overview of the Ministry

The Ministry financial statements include the Department of Municipal Affairs and Housing, Alberta Social Housing Corporation, and Safety Codes Council which is consolidated on a modified equity basis.

Six core businesses

The Ministry's 2006–2007 annual report describes six core businesses:

- Local Government Services
- Safety Services and Fire Protection
- Emergency Management Alberta
- Municipal Government Board
- Provide a range of housing options and supports for lower income Albertans
- Build Community Capacity

Ministry spent $457 million

Ministry expenses for 2006–2007 were $457 million and consisted of:

	(millions of dollars)
Housing Services	$ 215
Local Government Services	98
Debt Servicing	60
Public Safety	26
Community and Library Services	24
Grants in Kind	19
Ministry Support Services	12
Municipal Government Board	3

$159 million in revenue

The Ministry's revenues of $159 million include a $125 million recovery from the federal government for affordable housing programs.

For more information on the Ministry and its programs, visit its website at www.municipalaffairs.gov.ab.ca

Scope: what we did in our audits

1. Systems

Systems audits

We followed up on our previous recommendations on information technology management controls.

2. Performance reporting

Financial statements

We audited the financial statements of the Ministry, Department, and Alberta Social Housing Corporation for the year ended March 31, 2007.

Performance measures

We completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

We audited the following financial statements for the year ended December 31, 2006:

Other entities

- Improvement Districts: # 4, 9, 12, 13 and 24
- Kananaskis Improvement District
- Special Areas Trust Account

Our audit findings and recommendations

1. Systems

1.1 Alberta Social Housing Corporation—capitalization policy

Recommendation

We recommend that the Alberta Social Housing Corporation develop and implement procedures to support its capitalization policy, document them, and communicate them to financial services staff and program staff.

Background

Corporation owns most of the properties it uses to deliver social housing programs

The Corporation owns most of the properties it uses to deliver social housing programs. These capital assets include rental properties, surplus land, and surplus rental properties.

The Corporation has a capitalization policy, which is disclosed in the annual audited financial statements. The audited financial statements also include the estimated useful life ranges for the Corporation's capital assets.

The Department of Municipal Affairs and Housing financial services does the accounting for the Corporation.

Criteria: the standards we used for our audit

The Corporation should have procedures to support its capitalization policy that are formally documented, approved, and communicated to all appropriate financial services and program staff.

The Corporation should review the appropriateness of the estimated useful life of capital assets regularly to ensure it continues to appropriately and accurately reflect the useful life of the Corporation's capital assets.

Our audit findings

Procedures are needed to provide staff with guidance on how to apply the capital asset policy

The Corporation does not have formal documented procedures to support its capitalization policy to ensure the consistent and appropriate reporting of its housing properties.

Currently program staff, separate from financial services staff, are responsible to identify and communicate any acquisitions and disposals to financial services staff to ensure they are recorded for financial reporting purposes. However, there are no formal procedures or guidance on how this should be done.

Capitalization criteria not communicated

Capitalization criteria are not communicated to appropriate program staff to ensure that they can appropriately and promptly identify and communicate acquisitions and disposals to financial services staff. Program staff are not always aware of the accounting implications associated with acquisitions and disposals. Program staff do not know which date to use when identifying an asset disposal.

The current estimated useful lives of capital assets are assessed as up to 50 years. The Corporation does not regularly assess the appropriateness of the estimated useful lives of capital assets—used to calculate the amortization expense for housing properties.

Implications and risks if recommendation not implemented

Capital asset balances in the Corporation's financial statements may be misstated.

1.2 Information Technology management controls follow up—recommendation repeated

We first made this recommendation in our *2003–2004 Annual Report* (page 265). Management agreed to this recommendation and planned to fully implement it by March 13, 2007. It has not been implemented yet.

Recommendation

We again recommend that the Ministry of Municipal Affairs and Housing approve its draft security policies, and implement procedures so that only authorized users can access the Ministry's systems and data.

We also again recommend that the Ministry:

- **implement a risk assessment framework to manage information technology risks, and**
- **obtain independent assurance on the outsourced computer general control environment.**

Background

Responsible for systems that store and process province wide information

The Ministry is responsible for managing over 40 information systems that store and process information for the province. Some of the systems store critical information such as information on emergency management.

Outsources information technology services

The Ministry has outsourced the responsibility for managing application development and database administration of these and other systems to a service provider. The outsourced environment is, in effect, an extension of the Ministry's control environment. The quality of the Ministry's control environment depends on effective controls being maintained by the service providers.

A risk assessment of information systems includes identifying risks to information security and then reviewing internal controls to adequately mitigate these risks

Criteria: the standards we used for our audit

The Ministry's information technology environment should meet industry standards of control to protect the confidentiality, integrity and availability of information. To ensure this happens, the Ministry should:

- develop comprehensive policies and procedures for the operations, maintenance and security of its systems;
- implement a risk assessment framework to identify and manage information technology risk; and
- implement procedures to obtain assurance on the adequacy of controls in the outsourced environment.

Our audit findings

Information system risks need to be identified

In 2005–2006, the Ministry ranked its systems, based on criticality, from high impact to low impact. The Ministry also developed a template that can be used to identify information security risks and document controls in place to mitigate these risks. However, the Ministry has not populated the template with risks that are specific to its information systems. The Ministry also has not reviewed its controls to ensure they are adequate.

Out-of-date security policy

The Ministry is currently using a security policy that is out-of-date. For example, the security policy does not include requirements to:

- monitor for unauthorized access and other security events
- test, configure and maintain network systems and physical environments, on a regular basis, to prevent the threat of breaches in security.

The Ministry has not obtained independent assurance on the outsourced service provider's computer control environment.

The Ministry drafted a new security policy in 2005–2006 that includes these and other requirements but has not approved or implemented this new policy.

What remains

To fully implement these recommendations, the Ministry needs to:

- complete its risk assessments and review the adequacy of its controls based on the risk assessments;
- approve and implement its information security policy, develop procedures and ensure compliance with policies and procedures; and
- obtain independent assurance on the outsourced application maintenance environment. This assurance can be a formal report such as Section 5970 report, a Systrust, or a review completed by qualified individuals independent of the service provider.

2. Performance reporting

2.1 Financial statements

Unqualified opinions

We issued unqualified opinions on the Ministry's, Department's and Alberta Social Housing Corporation's financial statements for the year ended March 31, 2007.

2.2 Performance measures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

3. Other entities

3.1 Performance reporting

We issued unqualified opinions on the following financial statements for the year ended December 31, 2006:

Unqualified opinions

- Improvement Districts # 4, 9, 12, 13 and 24
- Kananaskis Improvement District
- Special Areas Trust Account

Seniors and Community Supports

Summary: what we found in our audits

Systems

The Ministry should improve its general computer controls—see page 143.

Performance reporting

Our auditor's reports for the Ministry and Department are unqualified—see page 144.

We found one exception when we completed specified auditing procedures on the Ministry's performance measures—see page 144.

Other entities that report to the Minister

- Performance reporting
  The financial statements of all Persons with Developmental Disabilities Boards (provincial and community) have unqualified auditor's reports—see page 144.

Overview of the Ministry

The Ministry consists of the Department and the six Persons with Developmental Disabilities Community Boards (the Community Boards). Effective July 1, 2006, the Province of Alberta dissolved the Provincial Board and transferred its functions to the Ministry.

The Ministry is responsible for:

- providing services, programs and planning for seniors and the aging population
- providing supports, services and planning for persons with disabilities

Ministry received $171 million

The Ministry received $171 million in 2006–2007, $161 million of which came from transfers from the Government of Canada.

Ministry spent $1.6 billion

In 2006–2007, the Ministry spent $1.6 billion, primarily as follows:

	(millions of dollars)
Senior services	$ 355
Support for persons with disabilities	541
Community supports	506

For more information on the Ministry, visit its website at www.seniors.gov.ab.ca.

Scope: what we did in our audits

1. Performance reporting

   We audited the financial statements of the Ministry and Department for the year ended March 31, 2007.

   We completed specified auditing procedures on the performance measures in the Ministry's 2006–2007 annual report.

2. Other entities that report to the Minister

   We audited the financial statements of the:

   - Persons with Developmental Disabilities Provincial Board (April 1 to June 30, 2006.
   - Persons with Developmental Disabilities Northwest Region Community Board
   - Persons with Developmental Disabilities Northeast Region Community Board
   - Persons with Developmental Disabilities Edmonton Region Community Board
   - Persons with Developmental Disabilities Central Region Community Board
   - Persons with Developmental Disabilities Calgary Region Community Board
   - Persons with Developmental Disabilities South Region Community Board

Our audit findings and recommendations

1. Systems

1.1 General computer controls

Recommendation

We recommend that the Ministry of Seniors and Community Supports improve general computer controls by:

- **identifying and protecting data based on its sensitivity,**
- **following change management procedures,**
- **reviewing database logs, and**
- **reviewing user access to applications.**

Background

Our financial statement audit work included an examination of the Ministry's general computer controls. Our audit focused on the network, facilities, hardware and software that are specific to the Ministry. Common government applications such as IMAGIS, EPS and ExClaim, the government network, and other shared services are included in the audit of Service Alberta.

84 control activities examined

We evaluated 84 general control activities for the Ministry. For each control activity, we assessed whether the control was effective or ineffective. To be assessed as effective, a control activity should be designed to mitigate an identified risk and have operated effectively throughout the year.

Criteria: the standards we used for our audit

The Ministry should have appropriate controls over its computer processing environment to ensure the security, integrity and availability of financial information being reported.

Our audit findings

17 controls ineffective

Of the 84 general control activities that we examined, we assessed 17 as ineffective. These control activities range from general security practices to establishing policies and procedures to manage IT risks faced by the Ministry. Four of the ineffective controls relate to disaster recovery planning and another seven ineffective controls are the responsibility of Service Alberta as outlined in the shared services agreement.

Weaknesses in security, access and change management controls

The following control weaknesses and deviations were identified:

- Ministry data is not classified by sensitivity, however a security policy is being developed that will resolve this issue.
- The Ministry does not have a process to review users' access to applications.
- Database and network logs are generated but are not being reviewed.

- A change management process exists but is not followed consistently.
- A process for testing backup tapes does not exist.

Implications and risks if recommendation not implemented

Without appropriate IT controls that are documented and followed, the Ministry may not be able to rely on its data, applications, and systems to provide complete, accurate, and valid information that is appropriately safeguarded. Poor controls over computer systems can result in unauthorized individuals gaining access to confidential information and exploiting it for identity theft or other fraudulent activity.

2. Performance reporting

2.1 Financial statements

Unqualified opinions

Our auditor's reports on the financial statements of the Ministry and Department are unqualified.

2.2 Performance measures

We found one exception when we completed specified auditing procedures on the Ministry's performance measures. Data was not reported for the new measure titled, *Eligibility Decision Time in Working Days for AISH Applications*. As a result, we were unable to complete our specified auditing procedures for this measure.

3. Other entities that report to the Minister

3.1 Financial statements

Unqualified opinion

The financial statements for the Persons with Developmental Disabilities Provincial Board and the six Community Boards received unqualified auditor's reports.

Non-compliance with legislation

Our auditor's report on the financial statements of the Calgary Region Community Board has an information paragraph reporting that expenses include payments by the Community Board for services to individuals whose disability did not meet the legal definition of a developmental disability. The Community Board provided services to individuals—and funding to organizations—that fall outside of the parameters set by the *Persons with Developmental Disabilities Community Governance Act*.

Service Alberta

Summary: what we found in our audits

Systems

The Ministry of Service Alberta should work with its client ministries to ensure that the service level agreements relating to information technology are current, clarify the level of services, and define roles and responsibilities of each party—see page 146.

We repeat our recommendation that Service Alberta should ensure that the systems it administers comply with the Alberta government's standards for computer security—see page 148.

We repeat our recommendation, made in a 2004 management letter, that Service Alberta should regularly complete risk assessments for central data centre assets—see page 149.

Performance reporting

Our auditor's report on the Ministry financial statements for the year ended March 31, 2007 is unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Other entities that report to the Minister

We issued unqualified auditor's reports on the financial statements of the employee benefits plans listed in section 3 of Scope.

Overview of the Ministry

The Ministry has three core businesses:

3 core businesses

- Service to Albertans
- Service to government departments
- Personnel administration (now known as Corporate Human Resources)

Ministry spent $330 million

In 2006–2007, the Ministry spent $330 million, including $261 million on services to government departments and personnel administration.

Ministry received $437 million

The Ministry's revenue from sources external to the government in 2006–2007 was $437 million. This amount was primarily motor vehicle driver's licence and vehicle registration fees.

For more details on the Ministry, visit its website at www.servicealberta.gov.ab.ca

Scope: what we did in our audits

1. Systems

We examined the service level agreements that Service Alberta enters into with its client ministries.

We also followed up on our previous years' recommendations for Service Alberta to:

- ensure the systems it administers comply with the Alberta government's standards for computer security
- regularly complete risk assessments for central data centre assets
- administer its clients' antivirus software in accordance with its service level agreements and Alberta government's requirements
- document and log its backup and related procedures
- work with other ministries to optimize IMAGIS use

2. Performance reporting

We audited Ministry of Service Alberta financial statements for the year ended March 31, 2007. We completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

We audited the financial statements of the following employee benefit plans:

- Long Term Disability Income Continuance Plan—Bargaining Unit and Long Term Disability Income Continuance Plan—Management, Opted Out and Excluded for the year ended March 31, 2007
- Government of Alberta Dental Plan Trust for the year ended December 31, 2006
- Government Employees' Group Extended Medical Benefits Plan Trust for the year ended December 31, 2006

Our audit findings and recommendations

1. Systems

1.1 Service level agreements between Service Alberta and its client ministries (relating to information technology)

Recommendation No. 32

We recommend that the Ministry of Service Alberta, working with its client ministries, revise their information technology service level agreements to:

- **ensure that the agreements are current**
- **clarify the level of services provided in each service category**
- **define the roles and responsibilities of each party**

In certain ministries where we examined their outsourcing processes, we made recommendations for improvement. Some of these recommendations relate to the ministries' agreements with Service Alberta—see pages 60, 129, 138, 143, 154 and 172.

Background

Service Alberta provides services to other government ministries

Service Alberta provides services to Alberta government ministries through its Edmonton and Calgary central computing centres, and through distributed computing sites, co-located at Government of Alberta (GOA) ministry facilities. It offers the following services:

Services	Central Shared Services	Distributed Computing Sites
Operations	√	√
Performance and Capacity Management	√	√
Problem and Change Management	√	√
Security Management	√	√
Data Base Management	√	Optional
Business Continuity and Disaster Recovery	√	Optional
Account Management	√	√
Asset Management	√	√

The service level agreement between Service Alberta and each client ministry defines the services that Service Alberta is to deliver.

Criteria: the standards we used for our audit

Service Alberta should:

- have a current service level agreement with each client ministry that documents the services that the client ministry requires
- use the service level agreement with each client ministry to document the level of service it will provide in each service category
- report to client ministries on its compliance with all security policies
- clearly define roles and responsibilities of Service Alberta and the client ministries for service delivery and management

Our audit findings

Agreements not current

- Service Alberta does not have current service level agreements with its client ministries.

Level of services offered not clear

- Service Alberta offers different types of services to client ministries, but the service level agreements do not clearly state the level of service agreed on. For example, Service Alberta offers levels described as Gold, Silver, Bronze and Best Effort for the Business Continuity and Disaster Recover services;

however, the service level agreements do not indicate the level of service contracted for. This finding applies to all ministries.

Risks not identified

- Service Alberta provides security management through the service level agreement which states "*...ensure security is maintained for GOA/Ministry policies, procedures and legislation for on-going operations or when introducing changes.*" However, Service Alberta does not do regular risk assessments of its operational environments. As a result, it cannot show that it maintains the security of the operational environment as the service level agreement requires. This finding applies to all ministries.

Roles and responsibilities not clear

- Service level agreements do not clearly define roles and responsibilities for:
  - maintaining adequate security for server rooms
  - administering change-management processes
  - implementing network access administration and management controls

Implications and risks if recommendation not implemented

If Service Alberta does not maintain current and detailed service level agreements with its client ministries, there is a risk that required services may not be delivered, resulting in insecure environments and wasted resources.

Because the client ministries may not receive the right services, the ministries cannot be certain that they are protecting their confidential information.

1.2 Security administration for shared services at distributed sites—recommendation repeated

We repeat our 2005–2006 recommendation because Service Alberta has not improved IT security.

Recommendation

We again recommend that the Ministry of Service Alberta ensure that the systems it administers comply with the Alberta government's standards for computer security.

Background

In our *2005–2006 Annual Report* (Volume 2, page 165), we recommended that Service Alberta ensure the systems it administers comply with the Alberta government's *Identity and Authentication Standard*. Service Alberta maintains and authenticates passwords throughout the Government of Alberta (GOA) and is also the system administrator for other government entities' applications and data.

Standards defined

The GOA *Identity and Authentication Standard* defines acceptable password controls. The GOA *Information Technology Baseline Security Requirements* policy states that "*passwords must not be transmitted in clear text*" and requires that Service Alberta "*ensure threats and vulnerabilities of networks and systems do not reduce the government's security.*"

Criteria: the standards we used for our audit

Service Alberta should ensure that:

- the systems it administers comply with the GOA standards
- websites and servers it maintains adequately protect user names and passwords transmitted over computer networks, and allow users to easily verify the authenticity of such sites

Our audit findings

Standards not met

The systems that Service Alberta administers still do not meet the GOA *Identity and Authentication Standard* in terms of requiring strong password controls.

Website security needs improvement

Service Alberta does not have adequate security over its websites to protect its users. Although Service Alberta planned to improve website security, it made no progress in 2007 in resolving any of the problems we identified last year.

Implications and risks if recommendation not implemented

Weak password controls make it easier for unauthorized people to access, view, and change confidential information in systems that Service Alberta administers.

Poorly-secured websites that do not allow their authenticity to be easily verified increase the risk of fake government websites being created to scam the public into giving them personal information.

1.3 Risk assessment for central data centre assets

This recommendation, first made in 2004 in a management letter, is repeated since the rate of progress in implementation is too slow.

Recommendation

We recommend that the Ministry of Service Alberta regularly complete risk assessments for central data centre assets that are key to providing critical services.

Background

In 2004, we recommended that Service Alberta complete a risk assessment for the data centre operations. In 2005, Service Alberta began performing IT risk assessments but was unable to complete the assessments.

Criteria: the standards we used for our audit

To provide critical services to client ministries, Service Alberta should:

- regularly identify risks of providing services
- implement controls to mitigate identified risks

Our audit findings

Service Alberta is completing risk assessments for new systems or when major changes occur to current systems. However, Service Alberta is not performing risk assessments for all systems that provide critical services.

To implement this recommendation, Service Alberta should:

- assign ownership to identified individuals for all critical services provided by Service Alberta to its client ministries
- adopt risk management as an active process by completing risk assessments regularly
- create a plan to complete risk assessments for critical assets
- develop a risk action plan to manage the risks identified

Implications and risks if recommendation not implemented

Without a comprehensive risk assessment, Service Alberta cannot be confident that security threats, potential vulnerabilities and impacts have been identified and evaluated, and that appropriate security and internal control safeguards for reducing or eliminating identified risk have been considered and deployed.

1.4 Antivirus updates—implemented

Background

Service Alberta should protect against viruses

In our *2005–2006 Annual Report* (Volume 2, page 167), we recommended that Service Alberta administer its clients' antivirus software in accordance with its service level agreements and Government of Alberta requirements.

Our audit findings

Service Alberta implemented adequate virus protection processes

Service Alberta implemented our recommendation. Sample servers and desktops supported by Service Alberta use approved antivirus software to protect against viruses. In addition, Service Alberta implemented a process to monitor critical servers to ensure that virus signatures are kept current for these servers. It also completes a periodic scan on workstations to verify the signatures installed.

1.5 Documented procedures and logs—implemented

Background

Service Alberta should document backup procedures

In our *2005–2006 Annual Report* (Volume 2, page 169), we recommended that Service Alberta document and log its backup-related procedures. This would let alternate staff perform complex and routine tasks consistently, even when the staff primarily responsible for this function are unavailable.

Our audit findings

Procedures are documented

Service Alberta has now documented procedures for backup testing and transportation of archive data to offsite storage. It uses the central shared services incident management process to record unusual events that result in backup and restoration errors.

1.6 Alberta Government Integrated Management Information System (IMAGIS) use—implemented

Background

IMAGIS use not optimized

On page 199 of our *2002–2003 Annual Report*, we recommended that the Deputy Minister of Innovation and Science work with other deputy ministers to optimize the use of IMAGIS. Responsibility for implementing this recommendation now belongs to Service Alberta.

Government's main financial system

IMAGIS (a customized version of PeopleSoft) is the computer system that ministries use to process financial transactions, including payments for supplies, services and payroll. It also produces the accounting records that ministries rely on to prepare their financial statements. Alberta Finance uses IMAGIS to prepare the province's financial statements.

Our audit findings

Completed criteria to optimize IMAGIS use

Service Alberta implemented this recommendation by completing and approving the criteria to evaluate the cost effectiveness of using existing legacy systems or developing new computer systems when IMAGIS has parallel capabilities. All government ministries will use the criteria.

2. Performance Reporting

Our auditor's report on the Ministry financial statements is unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to the Minister

Unqualified opinions

We issued unqualified audit opinions on the financial statements of the employee benefit plans listed in section 3 of Scope.

Solicitor General and Ministry of Public Security

Summary: what we found in our audits

Systems

The Department's information technology change management process and business continuity planning should be improved—see page 154.

Performance reporting

Our auditor's reports on the financial statements of the Ministry, the Department, the Victims of Crime Fund, the Alberta Gaming and Liquor Commission, and the Lottery Fund are unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

Four core businesses

The Ministry's 2006–2009 business plan describes four core businesses:

- Policing, crime prevention and response to organized crime
- Custody, supervision and rehabilitative opportunities for offenders
- Security services
- Victims programs and services

The government of Alberta reorganized during 2006–2007 and the Ministry now includes the Alberta Gaming and Liquor Commission and the Lottery Fund.

Ministry received $2.3 billion

Total revenue for the Ministry was $2.3 billion in 2006–2007. The Ministry's main revenue sources are:

	(millions of dollars)
Lottery revenue	$ 1,534
Liquor and related revenue	658

Ministry spent $2 billion

The total operating expenses for the Ministry were $2 billion in 2006–2007, comprised mainly of:

	(millions of dollars)
Lottery Fund and payments to Ministries	$ 1,547
Public Security	255
Correctional services	158
Victims of crime	18

For more detail on the Ministry, visit its website at www.solgen.gov.ab.ca.

Scope: what we did in our audits

1. Systems

We examined the Department of Solicitor General and Public Security's controls over its information technology environment.

2. Performance reporting

We audited the financial statements of the Ministry, the Department, the Victims of Crime Fund, the Alberta Gaming and Liquor Commission, and the Lottery Fund for the year ended March 31, 2007. We completed specified auditing procedures on the Ministry's performance measures.

Our audit findings and recommendations

1. Systems

1.1 Change Management

Recommendation

We recommend that the Department of Solicitor General and Public Security improve its change management process to include changes to its information technology environment made by service providers.

Background

Three main applications are used

The Department uses three main applications to manage its operations. These applications are:

- Correctional Management Information System (COMIS)
- Employee Time Management System (ETMS)
- Alberta Community Offender Management system (ACOM)

Department and Service Alberta both manage changes

The Department manages changes to COMIS and Service Alberta manages changes made to ETMS and ACOM. The Department has also outsourced information technology (IT) infrastructure support to Service Alberta and relies heavily on the availability of its network to deliver services to its business units.

Criteria: the standards we used for our audit

The Department should ensure that all changes to its IT environment follow a documented change management process that appropriately ranks and schedules the changes, and assesses their impact.

Our audit findings

Change management processes not consistent

Although COMIS has a documented change management process, which is consistently followed, ETMS and ACOM do not. Service Alberta does not always inform the Department of infrastructure changes. Consequently, before these changes are implemented, the Department cannot consider their effects on the IT environment or assess their impact.

Correction of deficiencies has begun

The Department has started to correct some of these deficiencies through regular working committees for ETMS and ACOM. These committees discuss and approve changes to ETMS and ACOM. In addition, the Department is in the preliminary stages of creating a Project Management Office that will define a standard project management process for all IT projects.

Implications and risks if recommendation not implemented

Without a consistent change management process to make changes to the IT environment, which all teams follow, appropriate scheduling, ranking and impact assessment of changes may not occur. This could disrupt normal operations and decrease the reliability of Department information systems.

1.2 IT Business Continuity Plan

Recommendation

We recommend that the Department of Solicitor General and Public Security develop procedures to implement its business continuity plan to ensure it can recover its information technology operations within required timeframes in a disaster.

Background

Business Continuity Plan exists

The Department has a documented Business Continuity Plan (BCP) that lists several business units as "critical." The high-level information technology (IT) Business Continuity Plan document is supposed to allow restoration of the Department's critical applications in a disaster. All of the Department's critical applications are hosted at Service Alberta's Edmonton central computing centre.

Criteria: the standards we used for our audit

The IT Business Continuity Plan should include the following key procedures:

- Determining IT recovery requirements based on the importance of business processes, as identified in the BCP
- Establishing and implementing backup and recovery methodology and techniques based on recovery requirements
- Co-ordinating and establishing appropriate recovery capabilities with service providers based on recovery requirements
- Testing the schedule to periodically validate recovery capabilities and timeframes

Our audit findings

The Department's high-level IT Business Continuity Plan does not include:

Guidance on recovery needs to be prepared

- identification of business processes identified in the BCP, associated applications and IT infrastructure for each critical business unit
- appropriate guidance to aid in the recovery of critical data from backups. COMIS has documented backup and recovery options in the procedures manual, but these are not included in the plan, nor does the plan include backup and recovery documentation for other critical applications
- established recovery capabilities agreed to with the service provider, Service Alberta

Periodic testing should be performed

- periodic tests to validate that the Department will be able to recover its critical applications and associated infrastructure within the required timelines.

Implications and risks if recommendation not implemented

If the Department does not have a documented, functional IT business continuity plan in place, it will not be able to systematically recover data within required timeframes. As a result, it will not be able to minimize the problems that a service disruption may cause.

Sustainable Resource Development

Summary: what we found in our audits

Systems

The Department should evaluate whether government objectives could be met by introducing requests for proposals from all interested parties whenever an entity applies to put substantial improvements on public land—see page 163.

Performance reporting

Our auditor's reports on the financial statements of the Ministry, the Department and the Environmental Protection and Enhancement Fund are unqualified. We found one exception when we completed specified auditing procedures on the Ministry's performance measures.

Other entities that report to the Minister

The Natural Resources Conservation Board should rank its compliance and enforcement activities for confined feeding operations based on risk—see page 167.

We issued an unqualified auditor's report on the Natural Resources Conservation Board financial statements.

Overview of the Ministry

Ministry entities

The Ministry of Sustainable Resource Development consists of the Department of Sustainable Resource Development, the Natural Resources Conservation Board, the Surface Rights Board, the Land Compensation Board and the Environmental Protection and Enhancement Fund. The Ministry has also delegated administration for certain legislative responsibilities to three delegated administrative organizations: the Alberta Conservation Association, the Forest Resource Improvement Association of Alberta, and the Alberta Professional Outfitters Society.

Key activities

The Ministry's key activities include:

Wildfire management: protects the benefits received from forests, supports programs promoting responsible forest management and prevents and suppresses wildfires.

Natural resources and public land management: integrates planning and management practices to develop common goals for ecological systems that cross multiple stakeholders and demands.

Land, access and compensation boards:

- Natural Resources Conservation Board (NRCB)—conducts independent public reviews of major non-energy projects affecting Alberta's natural resources and regulates new or expanding confined feeding operations
- Surface Rights Board—conducts hearings when an operator and a landowner or an occupant fail to reach an agreement regarding entry or compensation related to resource activity on privately owned land or occupied public lands.
- Land Compensation Board—determines compensation when landowners' property is expropriated by a public authority

Ministry earned $138 million

The Ministry earned $138 million in 2006–2007. The largest source of revenue was:

	(millions of dollars)
Premiums, fees and licenses	$ 122

Ministry spent $471 million

In 2006–2007, the Ministry spent $471 million on the following:

	(millions of dollars)
Wildfire management	$ 269
Natural resources and public land management	181
Land, Access and Compensation Boards	9
Ministry support services and valuation adjustments	10
Environment statutory programs	2

For more details on the Ministry, visit its website at www.srd.gov.ab.ca.

Scope: what we did in our audits

1. Systems

   We examined the Department's process to determine the sales price of property at Elinor Lake.

   We followed-up the Department's implementation of our 2003 contracting recommendation.

   We followed-up the Natural Resources Conservation Board's implementation of our 2004 recommendation for confined feeding operations.

2. Performance reporting

   We audited the financial statements of the Ministry, the Department and the Environmental Protection and Enhancement Fund for the year ended March 31, 2007. We also completed specified auditing procedures on the Ministry's performance measures.

3. Other entities that report to Minister

We audited the financial statements of the Natural Resources Conservation Board for the year ended March 31, 2007.

Our audit findings and recommendations

1. Systems—Elinor Lake land sale

1.1 Background

In 1995 the Department entered into a 25 year lease with Pro-Quality Homes Ltd, now known as Elinor Lake Resort Ltd. (the Resort), which allowed the Resort to construct and operate a commercial resort on property at Elinor Lake. In 2003, the Resort applied to purchase the property.

1.2 Question asked of the Auditor General by the Alberta Public Accounts Committee

In May 2007, Mr. R. Miller, MLA and member of the Alberta Public Accounts Committee asked us: "whether the taxpayers of Alberta received fair value for the land at Elinor Lake when it was sold to private interests?"

1.3 Conclusion

Fair value obtained

The Department sold land to the Resort in accordance with the *Public Lands Act* and the Dispositions and Fees Regulation. It obtained fair value which is what the regulation required.

1.4 Our audit findings on whether fair value was received

Since the Regulation required the purchaser (who held the land under a lease) to consent to any other purchaser obtaining the land, the Department's options for this transaction were limited. The Department could either sell the land to the leaseholder or continue with the lease.

Fair value not defined in regulation

While legislation prescribes that the sales price must not be less than the fair value of the land, the term fair value is not defined. Accounting standards define fair value as "the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act". Courts generally consider this however to be a definition of fair market value. Fair value has been described by some Courts as one that is just and equitable or one which provides adequate compensation consistent with the requirements of justice and equity.

The Department's interpretation of fair value for this property was—fair market value of the property as unencumbered vacant land specifically excluding the value of any improvements to the property that the Resort had made. The Resort had made a number of improvements including adding some utilities, erecting buildings and having the zoning changed to allow other uses including extensive recreation as permitted uses.

Appraisals used to determine purchase price

To determine the purchase price, the Department hired an accredited appraiser. He concluded that the market value of the property excluding improvements was $942,800. The Department offered to sell the property to the Resort for this amount. The Resort obtained an appraisal from another accredited appraiser which indicated the market value was $424,000. To resolve this difference of opinion, the Department together with the Resort hired another accredited appraiser to do a technical review of the other two appraisals and provide a third appraisal. The third appraiser concluded that the market value in the first appraisal was unrealistically high, low in the second appraisal and that the market value of the property was $524,500. The Department sold the 235.7 acre property to the Resort for that amount.

1.5 Criteria: the standards we used for our audit of this transaction

In forming the above conclusion we examined whether the Department had the following processes to ensure that:

1. it sells land in accordance with the *Public Lands Act* and Dispositions and Fees Regulation.
2. leases and sales meet the government's objectives
3. it has a process to review and approve land sale agreements before finalizing sales
4. land sale agreements clearly outline the terms and conditions of sales and conditions in land sale and lease agreements are met.

1.5.1 Land is sold in accordance with the *Public Lands Act* and Disposition and Fees Regulation

Our audit findings

The criterion was met—The Department obtained a statutory declaration that the Resort met the Canadian ownership requirement specified in the *Public Lands Act*. The Department met the fair value requirement for sales of land (see Conclusion page 159).

1.5.2 Leases and sales meet the government's objectives

Recommendation

We recommend that the Department develop a guideline for lease and sale of land indicating when and with whom to consult.

Our audit findings

Overall land strategy still being developed

The criterion is partly met. For the Department to be able to demonstrate that it has met government objectives, the objectives first have to be defined. The government has not established an overall land management strategy—but is planning to develop one as part of the Land Use Framework initiative. Once developed, the Framework may also provide overall guidance on consultation processes.

Until the Framework is completed the Department manages public land according to broadly defined policies and regional land resource plans where those exist. The Elinor Lake lease and sale was part of a government strategy to increase economic diversification of a local economy by allowing the use of public land for tourism. The Department also consulted prior to the sale with the Field Services and Forest management divisions within SRD, Infrastructure and Transportation, and Community Development (now known as Tourism, Parks, Recreation and Culture.) All entities consulted indicated to the Department they had no objections to the sale.

In May 2005, the government established the Government of Alberta's First Nations Consultation Policy on Land Management and Resource Development. This Policy requires the Department to consult with First Nations where land management and resource development on provincial Crown land may infringe First Nations' Rights and traditional uses.

Consultation guidelines too general

Since the Policy was introduced after the Department had started the sales negotiation with the Resort, the Department did not consult with First Nations or the Métis. The Department has since prepared the Land Management First Nations Consultation Guidelines. However these guidelines are general and do not specify such issues as the timing of when the Department should consult and with whom—for example, prior to a lease being established and/or when a sale is occurring.

Implications and risks if recommendation not implemented

Without proper guidance on consultation processes there is a risk that the Department could breach a duty to consult recognized by the courts.

1.5.3 Process to review and approve land sale agreements before finalizing sales

Our audit findings

The criterion was met. The offer letter was signed and approved by appropriate individuals.

1.5.4 Land sale agreements clearly outline the terms and conditions of sales and conditions in land sale and lease agreements are met

Recommendation

We recommend that the Department establish a guideline to not sell public land until the lessee is in compliance with key lease requirements.

Background

The Department determined that the Resort was not in compliance with a lease requirement to maintain a buffer zone between the shoreline of the lake and their development. The buffer zone was a key requirement of the lease as it was required for purposes of ensuring undisturbed ecological protection and integrity in the bank of the lake and also for recreational public access.

A key lease requirement is any term that the Department believes must be enforced even if the property is sold.

The Department has different tools to get lessees to comply with lease terms. The Minister can issue a ministerial order requiring the lessee to carry out the work specified in the order and within the time specified in the order. Where the lessee has applied to purchase the land, the Minister can also make compliance a requirement before selling land.

Our audit findings

Compliance term not included as condition of sale

The Department did not include compliance with a key requirement as a condition of sale in the offer letter but instead noted in the offer letter that any structures in the buffer zone would have to be removed and the land reclaimed by September 30, 2005. Since the Department concluded the Resort did not comply with the requirement, the Department issued a ministerial order with a completion date of April 16, 2007. The Department issued another ministerial order which revised some of the previous order's conditions and extended the completion date to July 31, 2007. At the time of our audit, the Department was in the process of inspecting the actions the Resort had taken to comply.

In our opinion, compliance with this condition should have been a sale condition. As well, the purchaser should have signed the offer letter to acknowledge agreement with the condition. Including compliance as a sale condition would have provided an incentive for the Resort to comply on a timely basis. If the Resort had not purchased the land the Minister could have still issued a Ministerial order.

Implications and risks if recommendation not implemented

In the absence of explicit acknowledgement of conditions of sale, the Department takes on unnecessary cost in achieving purchaser compliance.

1.6 Requests for proposals to ensure the province gets the best possible value that can be obtained given government objectives

Recommendation No. 33

We recommend that the Department of Sustainable Resource Development evaluate whether government objectives could be met by introducing requests for proposals from all interested parties whenever an entity applies to put substantial improvements on public land.

Our audit findings

Requests for proposals not used

The Department leases public land typically in response to a request from an interested applicant. When an applicant proposes to put substantial improvements on the land, the Department does not determine whether other individuals or entities with land use objectives acceptable to the government would be interested in leasing or purchasing the land. Nor has the Department developed lease rates and lease terms with the objective of ensuring that they are equal to fair market rates or terms.

The Department is not using public requests for proposals for disposition of leased land with substantial improvements because of the regulatory requirement that the lessee must agree to any sale and also because individuals entering into a lease are aware that the Department's policy means that any sale of the land will only be to the lessee. In effect, the lack of requests for proposals puts lessees in a preferential position with respect to the purchase of land.

Implications and risks if recommendation not implemented

Introducing competition by using requests for proposals is the key to ensuring that all who are interested in leasing or purchasing land get a chance to participate and to establishing a value that objectively demonstrates that the Department has obtained the best value given the government's objectives.

2. Systems—2003 Contract Audit—progress report

Background

In our *2002–2003 Annual Report* (page 277) we recommended that the Department of Sustainable Resource Development follow the government's best practice guidelines for contracted services and grants when undertaking major capital or long term lease projects. These guidelines describe six stages for contract management:

- Decision to contract
- Contract selection process
- Review/approval process
- Contract administration
- Contract completion
- Continuous improvement

Management actions

Additional guidance needs to be provided for management of contracts

The Department has made progress by creating a Contracts User Manual. We compared the manual to the guidelines and found that the manual complies with guidelines except for the following processes:

- Decision to Contract—The manual does not provide guidance for:
  - establishing performance measures for the contracted services.
  - considering expectations based on past experience and anticipation of potential changes in project scope
  - identifying current and outstanding legal requirements
- Contract Selection—The manual does not provide a quality assurance checklist as guidance for the contract proposal process.
- Review/Approval—There are no specific procedures or reference to conflict of interest issues and checking of bidders' references.
- Contract Administration—There is no requirement for independent audits to verify that Contract Specialists have adequately carried out their responsibilities.
- Contract Completion—There is no requirement to have all the documents date stamped and checked for proper completion.

In establishing the progress made, we noted the following additional matters that will require attention before we can conclude that our recommendation has been implemented:

- Business case supporting decision to contract— the manual should provide guidance on the nature and size of contracts where business cases should include an evaluation of alternative strategies.
- Management and Administration of Contracts—reinforcement of the need to document any conflict of interest and its management; and improved control to ensure that insurance requirements are kept up-to-date

- Contract completion and sign-off—the manual should provide guidance on the nature and size of contracts where an evaluation of the contract should be performed.

3. Systems— Project management

Recommendation

We recommend that the Department show clearly throughout a project that repeated contracting with the same contractor is a cost effective way to achieve that project's desired outcome.

Background

Department entered into 11 contracts with the same consultant

Beginning in October 2003 and continuing until March 2006, the Department entered into a series of 11 contracts, totaling $769,743, with the expectation of developing a graphic information management strategy. All 11 contracts were sole sourced to the same consultant.

Criteria: the standards we used for our audit of this transaction

Best practice guidelines created for the Senior Financial Officers' Council provide guidance for project mangers to: establish preliminary budget estimates and key assumptions, assess project alternatives, define monitoring requirements and conduct evaluations. The goal is to ensure value for money.

Our audit findings

We examined the expectations and what was delivered for each of the 11 contracts. In summary:

No evidence other contractors were considered

We could not find evidence of the need for an outside contractor to undertake the strategy development in the first place or evidence that other contractors were considered for any part of the development once it was underway.

Three of the contracts delivered outlines and clear recommendations for further development of the strategy. At these project milestones, we expected the Department to evaluate the proposed recommendations, the performance of the contractor and deliverables to date, establish a budget for implementing the recommendations and consider alternatives. We did not find evidence that these activities took place.

We found no budgets for this strategy development project, other than those presented by the contractor. On four of the contracts, the original amounts were increased through amendments totaling $142,000.

Implications and risks if recommendation not implemented
Without periodic evaluation of the interim and final output of a project executed through a series of contracts with the same contractor, the Department has no evidence that it is obtaining a desired outcome cost effectively.

4. Systems—Confined feeding operations

Summary

The Natural Resources Conservation Board assumed responsibility for administering the *Agricultural Operation Practices Act* (AOPA) effective January 1, 2002. AOPA's purpose is to ensure that the Alberta's confined feeding operations (CFOs) grow to meet the opportunities presented by local and world markets—in an environmentally sustainable way.

The Board regulates pre-AOPA and post-AOPA CFOs. Unless the Board issues an enforcement order or amends the terms of the permit, pre-AOPA CFOs follow permits that were originally approved by municipalities. Post-AOPA CFOs are newer facilities that have permits approved by the Board and must conform to all applicable AOPA regulations and requirements.

We recommended in our *2003–2004 Annual Report* (No. 28—page 294) that the Board:

- proactively manage odour and nuisance complaints
- prepare operational plans at the divisional level that integrate with the annual business plan and budget
- rank its compliance and enforcement activities based on risk

We found in 2007 that the Board has made progress in managing nuisance and odour complaints, and has implemented our recommendation to integrate operational plans with its business plan.

Risk analysis recommendation repeated

We have repeated the risk analysis part of our 2004 recommendation to encourage the Board to reconsider the merits of using a comprehensive risk assessment approach to regulating CFOs.

Our 2004 report did not indicate the steps involved in performing this type of approach. To better illustrate the process the Board needs to adopt, we have included the steps required in this report and compared them against the actions the Board previously took.

4.1 Rank compliance and enforcement activities based on risk—recommendation repeated

We have repeated this recommendation to provide explicitly the steps necessary for a systematic assessment of the risks posed by CFOs.

Recommendation No. 34

We again recommend that the Natural Resources Conservation Board rank its compliance and enforcement activities based on risk. To do so, the Board must:

- define through research the environmental risks applicable to CFOs and their impact
- categorize CFOs by priority levels of environmental risk at different locations
- conduct appropriate sampling and testing to confirm the validity of assigned risk levels
- select and deliver appropriate compliance and enforcement action

Criteria: the standards we used for our audit

Our two criteria and the steps involved in achieving the criteria are expressed separately in the findings section below.

Our audit findings

First criterion—the Board should have a process to focus compliance activities on the most significant areas in its jurisdiction. To do this the Board should:

- identify risk criteria.
- use the criteria to rank all known CFOs and identify those in higher risk locations.
- assess samples of CFOs in higher-risk locations and conduct comprehensive assessments to confirm if the selected risk criteria are valid and the risks are actually present.
- conclude on the prevalence and impact of risks.

Risk identification incomplete

Identify risk criteria—the Board prepared a site observation form as a tool to help it assess and document environmental risks associated with CFOs. However, this form alone does not identify the full spectrum of potential environmental risks and mainly covers air pollution and surface contamination risks. For a complete picture of risk, the Board needs other information—from monitoring reports, and the analysis of geological and hydrogeological conditions in the area.

We expected the Board to identify the major risks and evaluate CFOs in each risk category. This process would then let the Board set inspection frequency targets and select compliance actions based on types and levels of risk associated with each CFO.

Criteria need to be identified to do risk ranking

Use criteria to rank CFOs and identify those in higher risk locations—the Board did not rank CFOs or have a defined sampling procedure because originally it had decided to inspect all 1,700 pre-AOPA CFOs over 5 years. The Board needs to do research to identify the criteria necessary to do the risk ranking.

Assess samples of CFOs in higher risk locations and conduct comprehensive assessments to confirm if the selected risk criteria are valid and the risks are actually present—the Board inspected 308 pre-AOPA CFOs. However the Board did not intend for these inspections to be part of a comprehensive risk assessment and therefore did not ensure that the inspections were completed consistently or covered all relevant risks.

No standard guideline for completing inspection form

Our discussions with management and inspectors indicated that there is no standard guideline for completing the inspection form. Inspectors did not have standard training, guidelines, or the scientific data needed for taking well-informed standardized action based on the assessed risk level. For example, the site observation form refers to a more detailed checklist to use when a risk factor is present—but this checklist is not yet developed.

Additionally, the risk assessments were insufficient to detect all environmental risks associated with pre-AOPA CFOs because they were based only on visual observation and not other forms of assessment.

Reports lacked key information for assessing seriousness of contraventions

Conclude on prevalence and impact of risks—we examined inspection reports for 30 out of the 308 facilities. The inspectors found contraventions at 8 of the facilities included in our sample. The Board required remediation on 6 of 15 of the contraventions noted at these facilities. The Board advised us that while the inspections were being performed, it was still in the process of defining what constituted a serious contravention. We found that the documentation included in the inspection reports often lacked key information necessary for assessing the seriousness of contraventions. In the absence of a predetermined uniform classification terminology and documentation for assessing the seriousness of an inspection result, we were unable to substantiate the Board's conclusion about prevalence and impact of risks associated with these facilities.

Second criterion—the Board should have sufficient information to decide whether to take additional compliance action.

No plan in place for analyzing risk assessment data

We were unable to find a clear and detailed plan for processing, analyzing and acting on the gathered risk assessment data. For a risk assessment tool to achieve its objectives at the program level, the Board needs to process, analyze and report information across the jurisdiction. The Board's current way of processing and storing information makes such overall analysis inefficient and time consuming.

Monitoring can be improved

We also reviewed the Board's systems for processing and managing information collected via monitoring reports. Both the design and implementation of the monitoring system can be improved. The groundwater monitoring database currently documents monitoring reports from 148 facilities out of a total of 291 operations with monitoring requirements. Out of approximately 112 pre-AOPA municipally approved CFOs required to install a groundwater leak detection system, only 63 had specific groundwater monitoring conditions (testing parameters, sampling frequency, etc.). As of January 2006, out of the 63 operations with groundwater monitoring conditions, only 19 operations have been submitting monitoring reports. We have not seen an effective mechanism for identifying and pursuing such contraventions promptly.

Implications and risks if recommendation not implemented

The Board cannot demonstrate that it uses its resources effectively to manage the risk of environmental harm.

4.2 Proactively manage odour and nuisance complaints—progress report

Background

In 2004, we recommended that the Board proactively manage odour and nuisance complaints.

Management actions

New odour report form developed

The Board has made progress implementing this recommendation by creating an Odour Complaint Form. The type and the amount of data that the form is designed to collect will enable the Board to focus its odour complaint activities in areas of highest impact. Because the implementation of this form has started only recently, we were not able to assess its impact on the efficiency and resource requirements of the Board's response to odour complaints.

4.3 Prepare operational plans at divisional level—implemented

Recommendation implemented

Background

In 2004, we recommended that the Board prepare operational plans at the divisional level. These operational plans should integrate with the annual business plan and budget.

Our audit findings

The Board has implemented our recommendation. Its operational plans integrate with the annual business plan and budget.

5. Performance reporting

We issued unqualified auditor's reports on the financial statements of the Ministry, the Department and the Environmental Protection and Enhancement Fund. We found one exception when we completed specified auditing procedures on the Ministry's performance measures—the Ministry did not provide data for the Forest Sustainability (Reforestation rate in harvested areas) performance measure.

6. Other entities that report to the Minister

6.1 Performance reporting—Natural Resources Conservation Board

We issued an unqualified auditor's opinion on the financial statements of the Natural Resources Conservation Board for the year ended March 31, 2007.

Tourism, Parks, Recreation and Culture

Summary: what we found in our audits

Systems

The Ministry needs to update its computer services agreement—see page 172.

Performance reporting

Our auditor's reports on the financial statements of the Ministry, Department and seven provincial agencies are unqualified. We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

Ministry entities

The Ministry consists of the Department and seven provincial agencies.

Four core businesses

The Ministry was established on December 13, 2006 and is responsible for:

- managing Alberta's provincial parks and protected areas and promoting recreation and sport opportunities
- facilitating tourism marketing, development and film investment
- promoting Alberta's rich culture, including its arts and heritage
- protecting human rights, promoting diversity, fairness and access, and supporting the inclusion of all Albertans

Ministry received $30 million

The Ministry received $30 million from sources external to government in 2006–2007.

Ministry spent $452 million

In 2006–2007, the Ministry spent $452 million, primarily as follows:

	(millions of dollars)
Lottery funded programs	$ 202
Culture and heritage	110
Parks, recreation and sport	77
Tourism	48
Human rights and citizenship	6

Website

For more information on the Ministry, visit its website at www.tprc.alberta.ca.

Scope: what we did in our audits

1. Systems

We followed up on the Ministry's progress implementing our previous recommendations on:

- improving management systems in provincially-owned parks
- improving processes for the grant programs previously administered by the Department of Gaming

2. Performance reporting

We audited the financial statements of the Ministry, Department, and the following seven provincial agencies for the year ended March 31, 2007:

- Alberta Foundation for the Arts
- Alberta Sport, Recreation, Parks and Wildlife Foundation
- Human Rights, Citizenship and Multiculturalism Education Fund
- The Alberta Historical Resources Foundation
- The Government House Foundation
- The Historic Resources Fund
- The Wild Rose Foundation

We completed specified auditing procedures on the performance measures in the Ministry's 2006–2007 annual report.

Our audit findings and recommendations

1. Systems

1.1 Computer control environment

Recommendation

We recommend that the Ministry of Tourism, Parks, Recreation and Culture work with Service Alberta to:

- **document the services that Service Alberta is to provide and its control environment for information technology**
- **implement a process to ensure that Service Alberta consistently meets service level and security requirements**
- **provide evidence that control activities maintained by Service Alberta are operating effectively**

Background

Ministry relies on outsourced computer environment

The Ministry relies on its computing environment to provide complete, accurate, and valid data for its daily business. It has outsourced many of its information technology (IT) infrastructure and operations to Service Alberta. Outsourcing can be an efficient and effective way to provide IT services to an

operation. However, organizations that outsource all or part of their IT infrastructure or operations are still responsible to meet service levels and for appropriate controls over the confidentiality, integrity, and availability of all their information.

Criteria: the standards we used for our audit

The Ministry should:

- have a contract with Service Alberta that outlines the levels of service that Service Alberta will provide. The contract is known as a Service Level Agreement (SLA).
- have effective documented control processes in place to ensure that Service Alberta consistently meets the SLA and that all Ministry information remains secure and available when required.
- ensure that control processes are properly designed and implemented by either Service Alberta or the Ministry, and that there is adequate evidence of their operating effectiveness.

Our audit findings

No current agreement for computer services

The Ministry and Service Alberta currently do not have an SLA. They had an agreement, but it ended on March 31, 2005.

Also, although Service Alberta is responsible for providing services to the Ministry, there is no evidence of controls in place to ensure that it is delivering these services as required. For example:

- neither the optional security operations review and report recommendations, nor an independent third-party review of network security exists.
- there was no evidence that the process for requesting user access, and properly documenting the request and the granting of access was consistently followed.
- the same person developed and tested changes to the Grant Management Information System and then moved them to production during the year. However, the Ministry implemented a new procedure in March 2007 to prevent this lack of segregation of duties from recurring.
- the Ministry has not tested its disaster recovery plan.
- no formal control process exists to test the Ministry's data backups or ensure that they can be used to restore data.

Implications and risks if recommendation not implemented

The Ministry is ultimately responsible for the confidentiality, integrity, and availability of its information—even if:

- it has outsourced some or all of its IT control environment, and

2. controls that protects its information are—even partly—physically and operationally removed from its direct oversight.

The outsourced environment is an integral part of the Ministry's IT control environment. Without procedures to ensure that service providers maintain sound control environments, the Ministry cannot depend on the confidentiality, integrity or availability of its important business, financial or other sensitive information.

1.2 Management of parks and protected areas—implemented

Background

In our *2002–2003 Annual Report* (page 81), we recommended that the Ministry improve its system for selecting private operators to run provincially-owned parks and for monitoring contract performance.

Our audit findings

Recommendation implemented

The Ministry has implemented the recommendation. It put guidelines in place and applies them to requests for proposals and open competitions. It also uses them in selecting operators based on the quality of the proposals. Ministry staff have developed checklists and use them to improve their monitoring of contractor performance.

1.3 Grants management—progress report

Background

In 2004–2005, we examined the Department of Gaming grants management systems. In our *2004–2005 Annual Report* (pages 203 and 205) we recommended that the Department:

- ensure published information on grant programs available is complete,
- develop guidelines for assessing Other Initiatives Program grants, and
- improve the timeliness of its grant monitoring.

We followed up on the status of the recommendations at the Department of Tourism, Parks, Recreation and Culture (Department) because it took over the Department of Gaming's grant programs in a December 2006 government reorganization.

Management actions

CFEP published information complete

Ensure published information for CFEP and Other Initiatives grant programs is complete and establish guidelines for the Other Initiatives program—the Department implemented the recommendation for the Community Facility Enhancement (CFEP) program. The Department updated the published information to disclose the form and size of grants available, specifically the availability of grants in excess of $125,000.

Plan to publish information for Other Initiatives program

The Other Initiatives program's purpose is to fund projects that do not fall within the parameters of other government programs. The Department is in the process of developing information to publish for the Other Initiatives program. The information will cover existence, nature and purposes. The Department has an established process to assess Other Initiatives grant applications against the program objectives and enforce accountability of grant recipients for use of funds through grant agreements.

Steps to improve monitoring processes

Improve the timeliness of grant monitoring—the Department has made progress implementing this recommendation. In June 2006, the Department started a one-year initiative to improve the timeliness of receiving and reviewing financial accounting statements from grant recipients. The Department hired additional staff that used monthly reminders and phone calls to follow up on outstanding documents with grant recipients. Management also created a new report to track and monitor the status of approved applications.

Focus on file reviews—backlog reduced

Since the one-year program started, the Department made progress in reducing the backlog of files awaiting documentation and financial statement reviews. Over 3,125 files were closed. At the end of April 2007, less than 4% (587 of 14,960) of grants recipients had not filed financial accounting statements by the Department's due date. To be effective, the Department must apply the resources necessary to ensure the catch-up effort is sustained permanently.

To finish implementing this recommendation, the Department needs to establish an ongoing process for ensuring that grant funds have been used as intended through prompt receipt and review of grant recipient financial statements. The process must ensure prompt review of the financial statements from all grant recipients—not just those applying for new grants.

1.4 Community Initiative program (CIP)—unmatched grants in excess of $10,000

Background

Questions raised on unmatched CIP grants

On May 15, 2007, the Minster of Tourism, Parks, Recreation and Culture presented to the Legislative Assembly copies of the 2004 CIP guidelines, which were not previously posted on the Department's website, and a list of unmatched CIP grants over $10,000 for a three-year period. This responded to questions Members raised on the nature of unmatched CIP grants in excess of $10,000 and on whether the Minister had the discretion to make the grants.

Our audit findings

Grants met CIP program guidelines

We examined the information on unmatched grants in excess of $10,000 covering a three-year period. We tested a sample of these grants and reconfirmed our previous audit conclusion that the systems to ensure that CIP grants comply with program guidelines were operating as designed. The unmatched grants in excess of $10,000 were made under the Minister's authority to use discretion under section 9.1 of the CIP Program Guidelines.

2. Performance measures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Treasury Board

Summary: what we found in our audits

Systems

Assessing and prioritizing Alberta's infrastructure needs—see Volume 1, page 29.

Government Credit Cards—see Volume 1, page 172.

The Ministry should provide guidance to departments to ensure consistent accounting treatment of grants throughout government—see page 178.

Performance reporting

Our auditor's report on the Ministry of Treasury Board financial statements is unqualified. Because the Ministry did not have any performance measures, we did not complete any specified auditing procedures.

Overview of the Ministry

Five core businesses

The Ministry of Treasury Board's 2007–2010 business plan identifies five core businesses:

- Spending management and planning
- Strategic capital planning
- Accountability in government
- Corporate internal audit services
- Oil sands sustainable development secretariat

Spent $8 million

In 2006–2007, the Ministry spent approximately $8 million. It did not have any revenues.

For more information on the Ministry and its programs, visit its website at www.treasuryboard.gov.ab.ca.

Scope: what we did in our audits

1. Systems

   We examined whether departments are applying the government's accounting policy for grants consistently.

   We followed up on our previous year's recommendation on Supplementary Retirement Plans.

2. Performance reporting

We audited the financial statements of the Ministry for the year ended March 31, 2007.

Our audit findings and recommendations

1. Systems

1.1 Inconsistent budgeting and accounting for grants

Recommendation

We recommend that the Ministry of Treasury Board, working with other departments, provide guidance to ensure consistent accounting treatment of grants throughout government.

Background

The Canadian Institute of Chartered Accountant's Public Sector Accounting Handbook, section 3410, states that grants should be recognized as liabilities or expenses in the financial statements in the period that the events giving rise to the grant occurred, as long as:

- the grant is authorized;
- eligibility criteria, if any, have been met by the recipient; and
- a reasonable estimate of the amount can be made.

Government's accounting policy for grants

In the Province of Alberta's consolidated financial statements, the government's accounting policy for grants is described as follows: "grants are recognized as expenses when authorized, eligibility criteria, if any, are met, and a reasonable estimate of the amounts can be made." In the fiscal year ending March 31, 2007, the total amount of grants expensed in the province's consolidated financial statements was more than $22 billion.

Clarifies eligibility criteria

Recently, the Public Sector Accounting Board issued draft guidance on government transfers. The guidance clarifies the definition of eligibility criteria when assessing if a liability exists, so it will likely affect accounting for grants in the future. The Board is working to improve consistency across Canada of accounting for grants.

Conditions for large capital construction projects

When departments sign agreements to pay grants, the agreements typically include conditions specifying what the recipient must do to receive the funding. The conditions in the agreements are typically based on a percentage of completion and require submissions of documentation showing approvals, work progress, certificates, and compliance with laws. For large capital construction projects, the departments pay the funds over several years, usually as the project is built and as the recipient meets conditions.

Criteria: the standards we used for our audit

Treatment should be consistent

The Ministry of Treasury Board should provide guidance to all departments to ensure they budget and account for grants in accordance with the relevant accounting standards and the Government of Alberta policy, which will ensure consistent accounting treatment of grants throughout government.

Our audit findings

Treatment not consistent across government

Grant liabilities and expenses are not consistently budgeted or accounted for across government. Departments treat grants differently—even though they have similar characteristics and agreements. The problem is when the departments recognize liabilities and the basis they use to record these liabilities. Departments record a liability and an expense at the following various times:

- when the recipient meets conditions of the grant agreement,
- when the grant agreement is signed,
- when the project has been approved, or
- when the Minister has approved the grant.

Examples of recording inconsistencies are below:

Record liability when recipient meets conditions

As grant conditions met—the departments of Infrastructure and Transportation, Education, and some program areas in Advanced Education and Technology, Agriculture and Food, and Health and Wellness record grant liabilities and expenses for capital construction in their financial statements in the same period they pay the funds—as recipients meet conditions of grant agreements.

When the Minister approves a project, the department notifies the recipient and the two parties sign an agreement. Then, these departments show a commitment in their financial statements, but they do not record the liability and expense until the recipient has met the grant conditions. This is consistent with how they budget the expenses. Budgets are based on the departments' expectation of a project's stage of completion when they prepare the budget.

Record liability when agreement signed

When grant agreement signed—the departments of Energy, Children's Services, and some program areas in Tourism, Parks, Recreation and Culture, Agriculture and Food, and Advanced Education and Technology budget and record the liability and expense when the grant agreements are signed, but they don't pay the grant until the recipient meets the grant conditions.

Record liability when project approved

When project approved—the departments of Municipal Affairs and Housing and Seniors and Community Supports budget and record the liability and expense when they notify the recipient of grant approval for a capital construction project, but they don't pay the grant until the recipient meets the grant conditions.

Record liability when Minister approves

When Minister approves grant—some program areas in the departments of Tourism, Parks, Recreation and Culture, and Health and Wellness budget and record the liability and expense when the Minister has approved the grants, but they don't pay the grant until the recipient meets the grant conditions.

Timing of recording is different

In all these examples, the grant agreements have conditions, but the departments budget for the grants and record them as liabilities and expenses at different times. These examples are not comprehensive, because we did not look at all grants in all programs. But there is enough evidence to conclude that departments are budgeting and accounting for grants inconsistently.

Different interpretations of eligibility criteria

Neither the existing Public Sector Accounting Handbook, nor the Government of Alberta policy clearly identifies what "eligibility criteria" need to be met to record grants. In the first case above, departments used the conditions in the grant agreements as "eligibility criteria". In the other cases, departments used project approval as the eligibility criteria. For them, conditions in the agreement relate more to the flow of funds and accountability for grants, but not eligibility criteria. The Ministry of Treasury Board has not provided guidance to departments on eligibility criteria.

The current accounting treatments may be appropriate given the lack of clarity in the existing standard, past practices, and the fact that departments are consistently applying their own practices across similar programs. However, inconsistencies exist in budgeting and accounting for grants across the government. That treatment should be consistent and match the Government of Alberta's policy. If the Public Sector Accounting Board approves the new guidance on transfers, some current practices may not comply with the accounting standards.

Implications and risks if recommendation not implemented

Without consistent budgeting and accounting practices, grants are budgeted for and expensed in one year but paid out over several years. So, funds are being appropriated prematurely, and the government could use them for other purposes.

1.2 Supplementary Retirement Plans (SRPs)—implemented

Background

In our *2005–2006 Annual Report* (Volume 2, No. 30b—page 97), we recommended that the Ministry of Treasury Board review the Treasury Board Directives to ensure that the amount disclosed as the total compensation of each senior executive includes Supplementary Retirement Plan benefits earned in the year.

Our audit findings

Clear and complete disclosure

The Ministry of Treasury Board drafted an amendment to the Salary and Benefits Disclosure Directive, which requires clear and complete disclosure of annual and cumulative SRP benefits that senior executives earn. The Treasury Board approved this amendment on June 13, 2007. Total compensation for each senior executive, disclosed in financial statements, now includes all benefits earned during the year, and the cumulative liability to each senior executive is also disclosed.

2. Performance reporting

Unqualified opinion

Our auditor's report on the Ministry's March 31, 2007 financial statements is unqualified.

Offices of the Legislative Assembly

Summary: what we found in our audits

Systems

The Members' Services Committee should clarify policies and guidelines governing purchases of gifts by Members, and payments of bonuses to constituency employees by Members.

Performance reporting

Financial statements

We audited the financial statements of all the Offices of the Legislative Assembly, except our own. A private sector firm of chartered accountants appointed by the Standing Committee on Legislative Offices audited our financial statements.

Unqualified auditor's reports

Our auditor's reports for all Offices' financial statements contained unqualified audit opinions for the year ended March 31, 2007.

Overview of the Offices of the Legislative Assembly

6 Offices of the Legislative Assembly

There are six Offices of the Legislative Assembly. They, and their expenses, are:

	(millions of dollars)
Legislative Assembly Office	$ 41.6
Office of the Auditor General	18.6
Office of the Information and Privacy Commissioner	4.5
Office of the Ombudsman	2.3
Office of the Chief Electoral Officer	1.9
Office of the Ethics Commissioner	0.4

For more detail on the Legislative Assembly Office, visit its website at www.assembly.ab.ca. This website also contains links to the other five Offices of the Legislative Assembly.

Our audit findings and recommendations

1. Legislative Assembly Office—payments to Members

1.1 Summary

We examined systems that the Legislative Assembly Office (Office) uses to support Members of the Legislative Assembly (Members) in their role as elected representatives, including constituency office support, Members' pay, allowances, entitlements, travel and other expense reimbursements.

Policies and guidelines could be improved

Overall, we found that the Office has adequate systems to ensure payments to or on behalf of Members, their staff and offices are in accordance with established policies. The systems are operating as intended, but the policies and guidelines associated with the systems could be improved.

We make recommendations to the Members' Services Committee to clarify these policies and guidelines. These recommendations are intended to result in improved guidance to Members and to further clarify the processes undertaken by the Office.

Clarify policies for gifts and promotional items

The Members' Services Committee needs to clarify policies and guidelines governing purchases of gifts and promotional items by Members.

Members purchased a variety of gift and promotional items, none of which were in violation of policies and guidelines

We found no purchases of gifts or promotional items by Members that were contrary to policies and guidelines. Annual purchases of gifts and promotional items by Alberta's 83 Members in 2006–2007 totalled $890,244 (average $10,725 per Member) and $990,241 in 2005–2006 (average $11,930 per Member). There were various types of gifts and promotional items purchased; some had significant value. The most expensive single item was a sculpture purchased for $1,400 as a donation to a museum. The least expensive items purchased were pens, pencils, pins and refrigerator magnets. The current guidelines offer limited guidance on what may be an appropriate item for a Member to purchase as a promotional item or gift.

Clarify policies for bonuses to constituency employees

The Members' Services Committee needs to clarify policies and guidelines governing Members' payments of bonuses to their constituency employees. We found instances where Members provided bonuses representing over 100% of an employee's annual wage.

Review Temporary Residence Allowance

The Members' Services Committee also needs to review whether the system governing the Temporary Residence Allowance is working as intended. We found four Members who received a temporary residence allowance exceeding $5,000 for the month of March 2007.

1.2 Audit objectives and scope

Office approves expense payments to Members

Our objective was to determine if the Office has systems in place to effectively:

- assess the appropriateness of expense payments to, or on behalf of Members, their support staff, constituency or caucus offices
- ensure that transactions are processed in accordance with established policies and directives

The scope of this audit was to examine Members' expenses for fiscal years ended March 31, 2006 and March 31, 2007. We examined payments to Members associated to:

- travel expenses
- temporary residence allowance
- constituency office, communication and promotional expenses

We also examined office expenses for all caucuses.

Reviewed expense payments for 30 Members

We selected a sample of 30 Members taking into consideration the composition of the Legislative Assembly by party as well as a mix of urban and rural representatives. We examined supporting documentation for these 30 Members.

1.3 Conclusions

We frame our overall conclusion about the Office's systems in terms of three questions:

- Do adequate systems exist?
- Are the systems well designed?
- Do the systems operate as intended?

Office agreed to audit criteria; 4 of 5 criteria met

To provide a structure for our work, we developed and agreed with management on 5 audit criteria to use as standards for our audit. At the end of the audit, we use these same criteria to assess the Office's systems. We concluded that the Office met 4 criteria, and partly met 1 criterion.

Systems are operating as intended, but policies and guidelines could be improved

We concluded that the Office has adequate systems to ensure that payments made to or on behalf of Members are in accordance with established policies and guidelines. The systems are operating as intended. However, the policies and guidelines designed to assess the appropriateness of expense payments could be improved by clarifying guidance to Members about purchases of gifts, and payroll bonuses made to constituency employees. Also the temporary residence allowance needs to be reviewed to ensure the system is working as intended.

Members' Services Committee should decide what is suitable

The current policies and guidelines governing the purchase of gifts and promotional items are too general. As a result, the Office must assess the suitability of a gift. The Members' Services Committee should preserve its discretion to assess the suitability of Member purchases and not expect the Office to do so. Clear and detailed policies and guidelines will minimize the need for the Office to interpret the rules.

The following table details the criteria we used for our audit, and our assessment of the Office's performance against those criteria:

Criteria	Conclusion		
	Met	Partly met	Recommendation
1. There should be clearly documented policies and processes communicated to the appropriate parties		✓	1.5.1 1.5.2
2. Payments should be made only in accordance with legislation, guidelines and policies	✓		
3. Records should contain sufficient documentation to demonstrate the necessary compliance to policies	✓		
4. There should be adequate controls to ensure compliance with policies	✓		
5. There should be processes to recover non-compliant transactions	✓		

Criterion 1—clearly documented policies

Guidelines for purchases of gifts, and bonuses to constituency employees need to be clarified

This criterion was partially met. The Order[1] dealing with expenditures on gifts and promotional items and dealing with remuneration to constituency employees needs to be clarified. The section of the Order addressing the purpose of gifts has not changed since 1992, although the budgeted amount for gifts has increased during the last 15 years. The Order states the promotion allowance may be used to purchase items such as flags, pins and gifts considered appropriate by the Member. We found a wide range of items purchased—from pens and pencils to works of art, and all were within the current policies and guidelines. We also found instances where Members provided bonuses of over

[1] Constituency Services Order RMSC 1992, c. C-1 of the Consolidated Members' Services Committee Orders

100% of constituency employees' wages. See Recommendation 1.5.1.

Guidelines for Temporary Residence Allowance need to be reviewed

The Order[2] dealing with temporary residence is needlessly complex. The purpose of the allowance is to offset reasonable costs incurred by the Member to arrange accommodation in the capital. In March 2007, eligible Members received the monthly Capital Residence Allowance more than once in the month and received the daily sessional allowance in the same calendar month; one Member received a total of $5,425 for the month and three Members received $5,075. See Recommendation 1.5.2.

Criterion 2—expense payments in accordance with legislation

Payments made in accordance with requirements

This criterion was met. In reviewing expense payments made to the 30 Members, we found they were in accordance with existing legislation[3] and Orders. We found the Office kept a good record of the various entitlements a Member can receive.

Criterion 3—records contain sufficient documentation

Good records are kept

This criterion was met. We found very good supporting documentation for Member expenses. If a Member pays for expenses, he/she completes a personal expense form outlining the expenses. This document is signed by the Member and submitted to the Financial Management and Administrative Services (FMAS) division with detailed receipts. For purchases made through a vendor, the Member completes a purchase order, signs it and submits it to the Office with the vendor's invoice. On occasions when a receipt or invoice did not provide sufficient detail, we saw ample evidence that the Office contacted the Member's constituency office for clarification or further documentation. Although there was little or no information to identify the intended recipients or purposes of gift purchases, there is no requirement in current policies and guidelines to provide this information.

Criterion 4—adequate controls to ensure compliance

Controls are in place

This criterion was met. FMAS staff is well versed in the legislation and Orders that govern Member expenses. We found ample evidence of controls in place to ensure compliance. We found when an expense claim was unusual, FMAS staff would bring it to the attention of their Director. In making a decision as to whether the expense claim should be approved, the Director would do any one of the following:

[2] Members' Allowances Order RMSC 1992, c. M-1 of the Consolidated Members' Services Committee Orders
[3] *Legislative Assembly Act*

- review previous decisions that are kept in a database
- bring the matter forward to parliamentary counsel
- review correspondence issued by the Speaker to Members
- review Members' Services Committee transcripts (Hansard) to see what the intention of the committee was when the Order was made

Criterion 5—processes to recover non-compliant transactions

Very few non-compliant transactions found

This criterion was met. We noted five instances where the Office refused an expense submitted by a Member. In all cases, the Member's expense claim was adjusted or the Member reimbursed the Office by personal cheque. FMAS staff scrutinized the various expenses to ensure compliance with polices. Overall there were very few personal expenses found with Member expenses.

1.4 Overview

Members' Services Committee sets entitlements for Members

Under the *Legislative Assembly Act*, the Members' Services Committee, consisting of 11 Members of the Legislative Assembly, sets the various entitlements a Member of the Legislative Assembly may receive. Decisions made by the Committee are incorporated into various Orders. The Committee is traditionally chaired by the Speaker. The Committee decides the entitlement amounts for:

- travel expenses incurred on Member business
- temporary residence allowance
- Member's Services Allowance[4] which covers:
  - constituency office operations
  - constituency communications
  - security systems for Members' residences
  - promotion and gifts
- caucus office expenses

Office administers payments to Members

The Financial Management and Administrative Services (FMAS) division of the Office administers expense payments to support Members and has some discretion for reasonability. The Human Resource Services division of the Office administers Member remuneration. This includes a basic indemnity[5], tax free allowance, benefits, additional indemnities and allowances based on position within the Legislative Assembly, and membership on legislative and government committees. Human Resource Services also administers remuneration for all constituency and caucus support staff.

[4] The allowance is based on a formula that takes into account the number of electors and the population of each constituency, plus an adjusting matrix factor. The allowance was approximately $100,000 per member in the 2006/07 fiscal year. Although, in some cases Members have exceeded their spending allowance by no more than 10%, there is a process in place to recapture any overages in the next year. In any event we found no circumstances that indicated further work was required in this area.

[5] Amount provided to Members commonly referred to as a salary.

Members are in a unique position as they approve:

- the amount of remuneration and benefits they receive
- the amount of allowance for Member expenses
- their own expenses as expenditure officer

$25.2 million to support Members of all parties

There are 83 Members sitting in the Legislative Assembly of Alberta. In the year ended March 31, 2007, the Office distributed approximately $25.2 million to support Members from all parties. MLA remuneration accounts for approximately 80% of this support, with the remaining amount being expense payments[6].

We reviewed travel and caucus expenses and found no problems

We examined the travel expenses of the 30 Members in our sample. The Office has a good system in place to deal with these expenses. There was proper supporting documentation and review by the Office. We also examined the caucus expenses and found no issues needing further review.

1.5 Our audit findings and recommendations

1.5.1 Strengthen policies for Members' Services Allowance

Recommendation

We recommend that the Members' Services Committee clarify policies and guidelines governing:

- **purchases of gifts by Members**
- **payments of bonuses to constituency employees by Members**

Background

Members are responsible for their Members' Services Allowance

The Constituency Services Order that establishes the Member's Services Allowance gives discretion to the Member. Each Member is free to allocate their Member's Services Allowance in the manner that he/she feels best serves the constituency.

The Constituency Services Order regarding promotional items states that the allowance may be used to pay for the purchase of:

- pins, flags, or other things suitable for the Member's constituents and others, or
- items suitable as gifts to be given in the course of the Member's duties.

[6] Legislative Assembly Office: Statement of Operations for the year ended March 31, 2007 and information from the Senior Financial Officer, LAO.

Broad guidelines for purchases of gifts, and payment of bonuses to constituency employees

Within this very broad parameter, general guidelines have been adopted. A gift cannot be for the Member, for another Member or bring disgrace to the Member or the Legislative Assembly. The *Expenditure Guidelines for Members of the Legislative Assembly of Alberta* prohibit the following items:

- cash donations
- cheques, money orders, bank drafts
- livestock, pets
- any item with a partisan identification

The Member's Services Allowance provides funds for the payment of constituency employees. Within this allowance, there is no limit to the amount constituency employees can be paid. Members recruit their own employees who are hired through the Human Resource Services area of the Office.

Our audit findings—gifts

The Office has systems in place to ensure Member expenses comply with the existing legislation and Order. The system is operating as intended. However, the policies and guidelines could be improved by providing clarification on what are eligible expenses for promotions and gifts.

Members spent $890,244 on promotional items and gifts

For the year ended March 31, 2007, the 83 Members collectively spent $890,244 (average $10,725 per Member) on promotional and gift items; for the year ended March 31, 2006, Members collectively spent $990,241[7] (average $11,930 per Member). Members provide gifts to promote themselves as Members of the Legislative Assembly, their constituencies, or the Province of Alberta.

Variety of gift and promotional items purchased

We found numerous purchases of promotional items—tokens such as pins, flags, pens, pencils, and refrigerator magnets. We also found a variety of other gifts, some with significant value such as an artwork for $1,400 as a donation to a museum, and a glass sculpture purchased for $1,000 as a donation to a charitable silent auction.

[7] This does not include $415,000 which was a one time allowance of $5,000 per Member for the purchase of Centennial related promotional items at the community level. Funds for this expenditure were provided by the Alberta Gaming Lottery Fund.

Gifts and promotional items in our sample complied with policies and guidelines

Members provided supporting documentation to FMAS for all of the above gifts, including detailed invoices/receipts and either an expense claim form or a purchase order signed by the Member. There was little or no indication who received the gift or why. However, all promotional and gift items we examined in our sample complied with existing policies and guidelines. We interviewed several Members. They told us that items purchased were for charitable purposes, recognition of community volunteers and community events. The nature of the gifts was consistent with the stated purpose.

No restriction on per item cost or total spending on gifts within Allowance

The current policies need to be reviewed. It is unclear to us what was contemplated by the Members' Services Committee as being suitable when the policies and guidelines were originally drafted. There is no restriction on the per item amount of a gift or on the portion of the total Member's Services Allowance that can be spent on gifts and promotional items in a fiscal year.

Our audit findings—bonuses to constituency employees

The Office has systems in place to ensure Member expenses comply with the existing legislation and Orders. The system is operating as intended. However, the design of the system could be improved by providing clear guidelines in the area of constituency staff remuneration.

Some Members gave large bonuses to their constituency employees

In the 2006/2007 fiscal year, some Members requested lump sum payments for their constituency office employees. The requests by Members do not indicate the purpose of the payments; they are referred to as either a bonus or a lump sum payment. There are no guidelines or criteria governing such requests. The only restriction is the total amount of funds available in the Member's Services Allowance. The employment contracts we examined that were signed by the employees do not mention any type of performance based bonus or additional lump sum payments. Human Resource Services indicated that Members choose to offer these payments for a variety of reasons:

- to reward exceptional performance
- to compensate employees for extra work performed during the year
- to allow employees to catch up on pension contributions
- to compensate for lower base monthly earnings

Four Members provided their constituency employees with bonuses in excessive of $15,000 for the year. In two instances, the amount of the bonus equaled or surpassed the employees' total earnings for the year. For example, one part time employee earned $18,000 and received a bonus of $21,500.

Compensation plan introduced to improve equity for constituency employees

On April 1, 2006, Human Resource Services implemented the Constituency Office Compensation and Benefit Plan (Plan) which had previously been approved by the Members' Services Committee. The desire was to provide a standard of fairness and equity in the compensation package offered to all constituency staff. The Plan introduced job descriptions, a recommended pay scale based on equivalent positions in the public service, recommended annual performance reviews and recommended annual salary reviews based on merit and market.

Lack of guidelines concerning bonuses must be addressed

Human Resource Services considers this to be a transitional period in terms of implementation of the Plan. We encourage the Office to continue on this path and we will review the progress in this area during future audit work. The current guidelines that allow for unrestricted lump sum payments to be made to employees are counter to the goal of equity and put the integrity of the system as a whole at risk. Therefore, guidelines must be implemented to limit such payments. Performance bonuses should be based on measurable and commonly understood criteria that can be consistently applied across all constituencies.

Implications and risks if recommendation not implemented

Failure to provide clarity in the policies and guidelines governing expenditures on gifts and staff bonuses may cause a Member or the Legislative Assembly Office to misinterpret what is suitable with the result that a Member's integrity is undermined.

1.5.2 Temporary Residence Allowance

Recommendation

We recommend that the Members' Services Committee review whether the system governing the Temporary Residence Allowance is working as intended.

Background

Members who require temporary residence[8] in or near Edmonton to carry out their duties are entitled to claim the following allowances:

- Sessional allowance of $175 per day[9] when the Assembly is in session.

[8] Members are entitled to this allowance if their permanent residence is located 60 kilometers or more from the Legislature Building. Members residing within 60 kilometers of the Legislature Building can claim this allowance if they work more than 12 hours on the day they are claiming the allowance.

[9] Amount increased from $150 to $175 per day on January 1, 2007

Out-of-town Members are entitled to allowances for living expenses in the capital

- Non sessional allowance when the Assembly is not in session or is adjourned for more than 8 days in a session. The non sessional allowance can be claimed in one of two ways:
  - $175 per day for each day the Member is in or near Edmonton on public or official business and maintains a temporary residence, for a period not exceeding 10 days in a partial month, or 30 days in any three consecutive months, or
  - $1,750 per calendar month[10] or, in the case of a part month, $175 per day in the part month up to a maximum of $1,750, where that Member owns or leases, in the Member's own name, the temporary residence. This option is referred to as the capital residence allowance.

Our audit findings—residence allowance

Rules concerning allowances are needlessly complex

We examined the current system dealing with the temporary residence allowance. We found the Order to be needlessly complex, particularly dealing with the capital residence allowance. The guidelines for the capital residence allowance suggest a Member can claim $1,750 per calendar month. We found 55 of the 60 Members who are eligible for this allowance received:

- $1,800 in April 2006 when the monthly capital residence allowance was $1,500.
- $2,625 in March 2007 when the monthly capital residence allowance was $1,750.

Changes in sessional calendar have affected allowances

Changes in the sessional calendar have increased the number of adjournments resulting in an increase in the amount a Member can receive for the capital residence allowance in some months. It appears Members are receiving a larger amount under the capital residence allowance than was intended when the Order was drafted.

Members can received more than one allowance in a month

Under certain conditions, the current Order allows Members to receive the capital residence allowance and sessional in the same month. Between these two allowances, we found examples of one Member receiving $5,425 and three Members receiving $5,075 for the month of March 2007.

Members should receive fair compensation

We are not sure if the Members' Services Committee intended for a Member to receive this amount in a month for a temporary residence allowance. However, we would expect that a Member would receive fair compensation for living expenses in the capital.

[10] Amount increased from $1,500 to $1,750 per month on January 1, 2007

Implications and risks if recommendation not implemented

Failure to ensure that the system works as intended may result in excessive costs to government and may undermine the integrity of the Legislative Assembly of Alberta.

Supplementary information

Outstanding recommendations

This is a complete listing of numbered and unnumbered recommendations that are not yet implemented.

Auditee	Original Report Year	Original Rec.	Repeated	Recommendation subject
Cross-Ministry				
Treasury Board	2002–03	p. 27		Consistency of performance measures in government and ministry business plans
Executive Council	2004–05	1 & 2		Recruiting, evaluating and training boards of directors
Service Alberta	2005–06	22		IT Project Management
Advanced Education and Technology				
	2005–06	23		Effective monitoring of employers providing apprenticeship training
	2005–06	Vol. 2, p. 12		Apprenticeship program—selecting which employers to visit based on risk and opportunity
Grant MacEwan College	2000–01	39	2006–07: 19	Financial Processes
Grant MacEwan College	2004–05	p. 104		Computer control environment
Grant MacEwan College	Nov. 2006	N.9		Post Secondary Institutions: Grant MacEwan College construction management
Grant MacEwan College	Nov. 2006	N.10		Post Secondary Institutions: Donations to Grant MacEwan College
Lakeland College	Nov. 2006	N.6		Contracting practices: Contract policies and procedures
Lakeland College	Nov. 2006	N.7		Contracting practices: Monitoring performance
Lakeland College	Nov. 2006	N.8		Contracting practices: International studies
Mount Royal College	2004–05	p. 100		Retention and severance agreements
Mount Royal College	2004–05	p. 101		Governance and Human Resources Committee Charter
Southern Alberta Institute of Technology	Nov. 2006	N.11		Post Secondary Institutions: Southern Alberta Institute of Technology construction management
University of Alberta	1999–00	35	2000–01: 37 2001–02: 40 2002–03: 34	Internal control systems
University of Alberta	2003–04	p. 252		Strategic planning for Research
University of Alberta	2005–06	Vol. 2, p. 29		Campus security services
University of Calgary	2003–04	26		Planning for research capacity
University of Calgary	2003–04	p. 254		Research measures and targets
University of Calgary	2003–04	p. 257	2006–07: Vol. 2, p. 15	Controls over sponsored research and trust accounts
University of Calgary	2004–05	18		Research roles and responsibilities
University of Calgary	2004–05	p. 91		Research policies
University of Calgary	2004–05	p. 92		Research project proposals
University of Calgary	2004–05	p. 93		Research project management

Auditee	Original Report Year	Original Rec.	Repeated	Recommendation subject
University of Calgary	2004–05	p. 94		Accounting for research revenues and expenditures
University of Calgary	2005–06	Vol. 2, p. 20		General computer control
University of Calgary	2005–06	Vol. 2, p. 24	2006–07: Vol. 2, p. 13	PeopleSoft security
University of Calgary	2005–06	Vol. 2, p. 26		Campus security services
Agriculture and Food				
	2000–01	3	2004–05: 20	Evaluating program success: grant management
	2002–03	3		Performance measurement
	2003–04	3		BSE Report July 2004: Risk assessment for the agriculture and agri-food industry in Alberta
	2005–06	Vol. 2, p. 39		Verifying eligibility for the Canada-Alberta Fed Cattle Set Aside program
	2005–06	Vol. 2, p. 40		Developing and monitoring compliance with an information technology security policy
	2005–06	24		Verifying eligibility for Farm Fuel Benefit program
	Nov. 2006	N.12		Expense Accounts: Processes for reporting and dealing with allegations of employee misconduct
Agriculture Financial Services Corporation	2005–06	Vol. 2, p. 43		Information technology security
Also see Recommendations to more than one ministry—page 202				
Children's Services				
	1999–00	9	2000–01: 5	Cost and results of information
	2001–02	7	2002–03: 7 2004–05: 25	First Nation expense recoveries
	2001–02	8	2002–03: 69	Contract Management Systems
	2001–02	9		Risk assessment and internal audit services
	2002–03	6	2004–05: 25	First Nation Agency accountability
	2003–04	7		Reporting to senior management on the Delegated First Nation Agencies
Education				
	1998–99	22	2001–02: 36	Risk management
	2004–05	27	2006–07: 23	(Purchase of textbooks) Savings generated by Learning Resources Centre
	2005–06	25		School board budget process
	2005–06	26		School board interim reporting—minimum standards and best practices

Auditee	Original Report Year	Original Rec.	Repeated	Recommendation subject
Energy				
	2003–04	10		Oil sands projects approvals—incorporating risk into project assessment
	2004–05	28	2005–06: 27	Assurance on well and production data
Alberta Energy and Utilities Board	2004–05	29		Assurance systems for volumetric accuracy
Alberta Energy and Utilities Board	2004–05	30		Liability Management for Suspension, Abandonment and Reclamation Activities
Also see Recommendations to more than one ministry—page 202				
Environment				
	1998–99	30	2000–01: 8 2004–05: 31	Financial security for land disturbances
	2002–03	12	2005–06: 29	Contaminated sites information systems
	2003–04	13		Managing for results: Relevancy and sufficiency of performance measures
	2005–06	1		Drinking Water: Approvals and registrations
	2005–06	2		Drinking Water: Inspection system
	2005–06	3		Drinking Water: Waterworks operators
	2005–06	4		Drinking Water: Information systems
	2005–06	5		Drinking Water: Supporting Environment's drinking water goals
	2005–06	Vol. 1, p. 48		Drinking Water: Communicating with partners
	2005–06	28		Water Well Drilling
Also see Recommendations to more than one ministry—page 202				
Executive Council				
See Cross-Ministry—page 197				
Finance				
	2005–06	30a		Supplementary Retirement Plans—assess the annual and cumulative costs and risks
Alberta Securities Commission	2004–05	p. 198		Hosting and working sessions policies
ATB	1999–00	49	2000–01: 49 2001–02: 17 2003–04: 18 2004–05: 33	Strengthening internal controls—branch operations
ATB	2001–02	16	2002–03: 16	Risk management
ATB	2002–03	15	2003–04: 17 2004–05: 32	Lending policy compliance
Health and Wellness				
	1997–98	27	1999–00: 21 2005–06: 19	Population–based funding: Data improvement
	1998–99	19	1999–00: 39	Academic Health: Governance and accountability
	1998–99	40	2003–04: 21	Heath care registration

Auditee	Original Report Year	Original Rec.	Repeated	Recommendation subject
	2000–01	17	2005–06: 33	Analysis of physician billing information
	2001–02	24	2003–04: 22 2005–06: 34	Information technology control environment
	2001–02	p. 134	2002–03: 22	Control of, and accountability for, restricted funding
	2002–03	23, p. 156 and 157		Province Wide Services
	2003–04	23		Accountability of the Health Regions to the Minister of Health and Wellness
	2005–06	17		RHA Global Funding: Defining goals and performance measures
	2005–06	18		RHA Global Funding: Non-formula funding adjustments
	2005–06	20		RHA Global Funding: Funding communications
	2005–06	21		RHA Global Funding: Coordination of capital and operating decisions
	2005–06	Vol. 1, p. 147		RHA Global Funding: Periodic analysis
	2005–06	Vol. 1, p. 158		RHA Global Funding: Documentation retention
	2005–06	Vol. 1, p. 159		RHA Global Funding: Data availability and timeliness
	2005–06	Vol. 1, p. 160		RHA Global Funding: Resolving Global Funding issues
	2005–06	31		2005 Ministry annual report—results analysis
	2005–06	32		2005 Ministry annual report—performance measures
Alberta Alcohol and Drug Abuse Commission	Nov. 2006	N.1		Contracting Practices: Internal controls
Alberta Alcohol and Drug Abuse Commission	Nov. 2006	N.2		Contracting Practices: Academic credentials and criminal records checks
Alberta Alcohol and Drug Abuse Commission	Nov. 2006	N.3		Contracting Practices: Board governance
Alberta Cancer Board	2001–02	25		Alberta Cancer Board (improve systems for managing cancer drug programs)
Capital Health	2005–06	35		Accurate financial information
Capital Health Authority and Calgary Health Region	2000–01	p. 135		Performance measures for surgical services
Calgary Health Region	2005–06	36		Monitoring service provider compliance and performance
Also see Recommendations to more than one ministry—page 202				
Infrastructure and Transportation				
	2003–04	29		Monitoring processes for commercial vehicle and motor vehicle inspection
	2003–04	30		Licensing of commercial vehicle and motor vehicle inspection facilities and technicians

Auditee	Original Report Year	Original Rec.	Repeated	Recommendation subject
	Nov. 2006	N.5		Infrastructure and Transportation: Capital grants to Métis Settlements
International, Intergovernmental and Aboriginal Relations				
	2005–06	Vol. 2, p.58		Agreements for locally engaged staff
	Nov. 2006	N.4		Role of Métis Settlements Ombudsman
Municipal Affairs and Housing				
	2001–02	46		Emergency preparedness
	2003–04	p. 265	2006–07: Vol. 2, p. 138	IT Management controls
Alberta Social Housing Corporation	Oct. 2005	ASHC 1		ASHC Land Sales Systems—Oct. 2005: Planning for land sales and development in Fort McMurray
Alberta Social Housing Corporation	Oct. 2005	ASHC 2		ASHC Land Sales Systems—Oct. 2005: The Corporation's systems for selling land
Seniors and Community Supports				
Department and PDD community boards	2003–04	8		Service provider risk assessment
Department and PDD community boards	2003–04	9		Contract monitoring and evaluation
Department and PDD community boards	2003–04	p. 109		Contracting framework and policies
Also see Recommendations to more than one ministry—page 202				
Service Alberta				
	2001–02	22	2002–03: 20 2004–05: 37	Performance measures
	2003–04	20		Contracting policies and procedures
	2004–05	34		IT project management of Registry Renewal Initiative
	2005–06	37		Physical security
	2005–06	Vol. 2, p. 165	2006–07: Vol. 2, p. 148	Security administration
Also see Cross-Ministry—page 197				
Solicitor General and Ministry of Public Security				
	1997–98	34	2002–03: 40	Policing standards
Alberta Gaming and Liquor Commission	2002–03	p. 131		Contract management systems—Contracting processes

Auditee	Original Report Year	Original Rec.	Repeated	Recommendation subject
Sustainable Resource Development				
	2002–03	p. 277		Contracting
	2005–06	13		Reforestation: Performance information.
	2005–06	14		Reforestation: Performance information
	2005–06	15		Reforestation: Monitoring and enforcement
	2005–06	16		Reforestation: Forest Resource Improvement Association of Alberta
	2005–06	Vol. 1, p 129		Reforestation: Seed inventory
Natural Resources Conservation Board	2003–04	28	2006–07: 35	Rank compliance and enforcement activities based on risk (Confined feeding operations)
Also see Recommendations to more than one ministry—page 202				
Tourism, Parks, Recreation and Culture				
	2004–05	p. 203		Awareness of grant programs available (and guidelines for assessing Other Initiatives Program grants)
	2004–05	p. 205		Review of accounting (Timeliness of grant monitoring)
Wild Rose Foundation	2004–05	p. 142		Wild Rose Foundation's systems for the International Development Program
Treasury Board				
	1996–97	25	1997–98: 41 1998–99: 47 1999–00: 42 2000–01: 45 2001–02: 15 2002–03: 2	Corporate government accounting policies
Also see Cross-Ministry—page 197				
Recommendations to more than one ministry				
Food Safety				
Regional Health Authorities	2005–06	6		Food Safety: RHA food establishment inspection programs
Regional Health Authorities and Health and Wellness	2005–06	Vol. 1, p. 83		Food Safety: Tools to promote and enforce food safety
Regional Health Authorities (supported by Health and Wellness	2005–06	7		Food Safety: RHA food safety information systems
Regional Health Authorities	2005–06	8		Food Safety: Compliance with permitting legislation
Agriculture and Food	2005–06	9		Food Safety: Alberta Agriculture's surveillance program
Agriculture and Food	2005–06	10		Food Safety: Alberta Agriculture's inspection and investigation programs

Auditee	Original Report Year	Original Rec.	Repeated	Recommendation subject
Agriculture and Food	2005–06	Vol. 1, p. 94		Food Safety: Alberta Agriculture's food safety information systems
Health and Wellness and Agriculture and Food (in cooperation with RHAs)	2005–06	11		Food Safety: Integrated food safety planning and activities
Regional Health Authorities, Health and Wellness, and Agriculture and Food	2005–06	Vol. 1, P. 102		Food Safety: Eliminating gaps in coverage
Health and Wellness, and Agriculture and Food	2005–06	12		Food Safety: Accountability
Seniors Care and Programs				
Health and Wellness (working the RHAs and Seniors and Community Supports)	2004–05	5		Seniors Care and Programs, No. 1—page 29: Developing and maintaining standards
Health and Wellness and RHAs (working with Seniors and Community Supports)	2004–05	6		Seniors Care and Programs, No. 2—page 31: Compliance with Basic Service Standards
Health and Wellness and RHAs (working with Seniors and Community Supports)	2004–05	7		Seniors Care and Programs, No. 3—page 34: Effectiveness of services in long-term care facilities
Health and Wellness (working with RHAs with Seniors and Community Supports)	2004–05	8		Seniors Care and Programs, No. 4—page 35: Effectiveness of services in long–term care facilities
Health and Wellness (working with RHAs with Seniors and Community Supports)	2004–05	p. 61		Seniors Care and Programs—page 37: Information to monitor compliance with legislation
Health and Wellness (working with RHAs with Seniors and Community Supports)	2004–05	9		Seniors Care and Programs, No. 5—page 39: Determining future needs for services in long-term care facilities
Health and Wellness	2004–05	p. 62		Seniors Care and Programs—page 39: Report on progress implementing Continuing Care Strategic Service Plans
Health and Wellness and Seniors and Community Supports	2004–05	10		Seniors Care and Programs, No. 6—page 45: Standards for services in assisted living and other supportive living settings
Seniors and Community Supports	2004–05	11		Seniors Care and Programs—No. 7: Developing and monitoring standards for the Seniors Lodge Program
Seniors and Community Supports	2004–05	12		Seniors Care and Programs, No. 8: Effectiveness of Seniors Lodge Program
Seniors and Community Supports	2004–05	p. 67		Seniors Care and Programs—page 50: Determining future needs

Auditee	Original Report Year	Original Rec.	Repeated	Recommendation subject
Seniors and Community Supports	2004–05	p. 68		Seniors Care and Programs—page 55: Effectiveness of the Alberta Seniors Benefit Program
Seniors and Community Supports	2004–05	13		Seniors Care and Programs, No. 9—page 56: Information to determine program benefits
Sustainable Resource and Environmental Management (SREM)				
Energy, Environment and Sustainable Resource Development	2004–05	14		Sustainable Resource and Environmental Management (SREM) Implementation Plan

Government's response to 2005–2006 recommendations

The following are the numbered recommendations in our 2005–2006 reports and the government's response to each of them. The reports include:

- Annual Report of the Auditor General of Alberta 2005–2006 (October 2006)—37 numbered recommendations
- Report of the Auditor General—November 2006—12 numbered recommendations

Annual Report of the Auditor General of Alberta 2005–2006

Drinking Water

1.	Approvals and registrations We recommend that the Department of Environment make its system to issue approvals and registrations more effective by: • Strengthening supporting processes such as training, manuals, checklists, and quality control for approvals and registrations, • Ensuring that applications are complete and legislatively compliant, • Documenting important decisions in the application and registration processes, • Processing applications and conversions promptly, • Maintaining consistency in the wording of approvals and registrations across the province, and • Following up short-term conditions in approvals.	Accepted. During the next two years, the Department will update manuals and internal forms, improve documentation practices, and implement a process to follow-up on short-term approval conditions.
2.	Inspection system We recommend that the Department of Environment improve its drinking water inspection processes by: • Applying the same inspection frequency targets to all waterworks regulated by the Environmental Protection and Enhancement Act, • Ensuring inspectors receive sufficient training in waterworks systems and operations, • Revising documentation tools and practices, including making them more risk focused, and • Informing operators promptly of inspection results, ensuring operators respond appropriately, and concluding on each inspection.	Accepted. During the next two years, the Department will update manuals and internal forms, formalize inspection training and update inspection frequency targets.

3. Waterworks operators

We recommend that the Department of Environment, working with its drinking water partners, update its strategies to deal with the province's needs for certified water treatment operators.

Accepted. The Department will enhance its support of this program.

4. Information systems

We recommend that the Department of Environment improve the information systems used to manage its drinking water businesses by:

- Updating EMS forms and improving reporting capacity,
- Coordinating regional, district, and personal information systems to avoid overlap and encourage best practice, and
- Using data to improve program effectiveness and efficiency.

Accepted in principle. During the next two years, the Department will update forms and coordinate regional systems.

5. Supporting Environment's drinking water goals

We recommend that the Department of Environment ensure that is legislation, programs, and practices support its new drinking water goals. This includes:

- Clarifying how approvals will move facilities towards current standards,
- Delivering central initiatives that enhance the drinking water program,
- Determining how the Department should promote policy initiatives such as regionalization, including the financing of those initiatives,
- Establishing how the Department can partner with others while mitigating the risks inherent in partnering, and
- Reinforcing a "beyond compliance" mindset with Department staff.

Accepted. The Department will continue to review and update its legislation, programs and business practices. In addition, the Department will continue to work with Infrastructure and Transportation to provide funding for regional water distribution systems.

Food Safety

6. RHA food establishment inspection programs

We recommend that the regional health authorities improve their food establishment inspection programs. In particular, regional health authorities should:

- Inspect food establishments following generally accepted risk assessment and inspection frequency standards,
- Ensure that inspections are consistently administered and documents,
- Follow up critical violations promptly to ensure that food establishments have corrected those violations,
- Use their enforcement powers to protect Albertans from the highest risk food establishments, and
- Periodically reinforce independence and conflict of interest policies amongst public health inspectors.

Accepted. Health and Wellness will be meeting with the Regional Health Authorities to generate a plan regarding the inspection of food establishments. Development of a provincial strategy and policies would assist in clearly outlining expectations for inspection frequency standards and follow up on critical violations. It is important to note however, that there is generally no accepted practice for how often certain establishments should be inspected.

7. RHA food safety information systems

We recommend that the regional health authorities, supported by the Department of Health and Wellness, improve their automated food safety information systems. This includes:

- Enhancing system management, security, and access control,
- Ensuring data consistency,
- Ensuring that service level agreements are in place, and
- Developing reporting capacity for management and accountability purposes.

Accepted. Health and Wellness is currently working with the Regional Health Authorities on an initiative that is developing outcome measures/reporting requirements for environmental health. This project includes food safety as a component of environmental health. The final report is due at the end of December 2006.

8. Compliance with permitting legislation

We recommend that the regional health authorities ensure that their food establishment permitting practices comply with legislation and are efficient.

Accepted. Health and Wellness will be meeting with Regional Health Authorities to generate a plan regarding food establishment permitting practices.

9. Alberta Agriculture's surveillance program

We recommend that the Department of Agriculture, Food and Rural Development improve the administration of its food safety surveillance program. This includes:

- Documenting its prioritization processes,
- Involving partners in the prioritization of projects,
- Ensuring conditions for the approval of specific projects are met and final approval recorded,
- Capturing costs for large projects,
- Monitoring the impact of surveillance projects, and
- Considering whether regulatory support for the program is required.

Accepted. The Department has implemented a risk-based priority setting and project tracking process. This includes a system for documentation and approval tracking, and continues to be refined to better involve stakeholders in the process (stakeholder communication plan will be available by April 2007). Costs for larger surveillance projects are being tracked utilizing financial tools available to the Department. As better tools become available, the accuracy will improve. Outcomes of surveillance projects are assessed to determine if interventions are warranted and the impacts of these interventions will be assessed.

10. Alberta Agriculture's inspection and investigation programs

We recommend that the Department of Agriculture, Food and Rural Development improve its inspection and investigation programs by ensuring:

- It considers a broader range of enforcement tools,
- Inspections are up-to-date, and
- Practices for complaints, incident reports, and held tags are consistent.

Accepted. The Department has initiated the development of a proposed Agricultural Product (Food) Safety and Quality Act and will be undertaking extensive consultations with stakeholders in 2007 on its development. Considerations will be given to the inclusion of additional enforcement authorities or tools. A new audit program in provincially licensed meat facilities has been implemented to enhance inspection effectiveness.

Regular timely inspections, incident reports, and held tags directives are now in place to ensure consistency in actions by all staff in the Regulatory Services Division.

11. Integrated food safety planning and activities

We recommend that the Departments of Health and Wellness and Agriculture, Food and Rural Development, in cooperation with the regional health authorities and federal regulators, improve integrated food safety planning and cooperation on food safety activities and initiatives. This includes:

- Each provincial ministry defining its own food safety policies, objectives, and measures,
- Coordinating provincial food safety policies and planning so initiatives are integrated,
- Ensuring provincial approaches align with initiatives being developed through federal/provincial/territorial committees,
- Improving day-to-day coordination of provincial food safety activities,
- Encouraging the joining application of HACCP and HACCP related programs in Alberta, and
- Improving cooperation and working relationships among provincial and federal partners such as the First Nations and Inuit Health Brand and the Canadian Food Inspection Agency.

Accepted. As members of Canada Alberta Partners in Food Safety, Health and Wellness (H&W) and Agriculture and Food (AF) work closely with the federal government and the Regional health Authorities (RHAs) on issues such as meat and dairy inspection; food safety training programs; Hazard Analysis Critical Control Point (HACCP_ implementation; co-ordination of responses in food safety emergencies and laboratory services; and improve and integrate food safety activities and objectives. AF is further defining and strengthening its objectives and measures for its goal "Continued excellence in food safety" (next revision June 2007), and H&W is currently working with the RHAs to develop outcome measures for food and other areas under the Environmental Health Reportable Measures Initiative (final report in December 2006). H&W and AF are working to ensure that government policies are aligned with Federal/Provincial/Territorial initiatives.

12. Accountability

We recommend that the Departments of Health and Wellness and Agriculture, Food and Rural Development further develop their capacity for food safety accountability in Alberta. This includes ensuring that information systems can produce the accountability information that the two ministers need, both for individual ministerial accountability and for integrated cross-ministry purposes.

Accepted. Agriculture and Food (AF) is upgrading and expanding its data systems to improve data management, analysis and ability to share animal health and food safety data (multiple projects envisioned through 2010).

The current Environmental health Reportable Measures Initiative will provide recommendations regarding the necessary data element requirements, and a proposed Environmental Health Strategic Plan will include a review of the existing data systems and future program needs as a first step in developing the system needed to address accountability. Health and Wellness and AF will focus on developing measures to demonstrate the effectiveness of the food safety system and improve ministerial accountability through the development of an Alberta Safe Food Strategy.

Reforestation

13. Performance information

We recommend that the Department of Sustainable Resource Development produce appropriately timed reforestation performance reports to confirm the effectiveness of its regulatory activities.

Accepted. By March 2007, the Department will develop appropriate reforestation progress reports that will be used to assess performance.

14. Performance information

We also recommend that the Department of Sustainable Resource Development:

- Strengthen its quality control process for performance information, and
- Re-examine whether achieving the target for reforestation rate in harvested areas indicates satisfactory reforestation.

Accepted. The Department will add procedures to the small operator manual to clarify responsibilities for reporting reforestation activities. In 2006–2007, the Department will include a procedure in its Forest Operations Monitoring Protocol to cross check the results from regeneration surveys with the data in the Alberta Regeneration Information System. A procedure will also be added to help ensure all cutblocks harvested and their subsequent treatments are entered into the Alberta Regeneration Information System. In 2007–2008, the Department will initiate a review of the appropriateness of the reforestation performance measure.

15. Monitoring and enforcement

We recommend that the Department of Sustainable Resource Development strengthen its monitoring of reforestation activities by:

- Bringing more rigour to the review of forestry operator plans,
- Making its field inspection program more effective, and
- Promptly identifying and correcting non-compliance with legislation.

Accepted. The Department will continue work to increase the efficiency and effectiveness of its monitoring and enforcement of reforestation activities. In 2006–2007, the Department will complete a Forest Operations Protocol that will include a comprehensive, risk-based reforestation monitoring component. The Department will also strengthen the enforcement component in its reforestation training courses and will strengthen processes to promptly identify non-compliance with legislation.

16. Forest Resource Improvement Association of Alberta

We recommend the Department of Sustainable Resource Development enter into a memorandum of understanding with the Forest Resource Improvement Association of Alberta to clarify the Department's accountability expectations.

Accepted. By March 2007, the Department will work to develop a memorandum of understanding with the Forest Resource Improvement Association of Alberta to clarify expectations and reporting requirements. The agreement will also clarify the Department's role in the monitoring of the Forest Resource Improvement Association of Alberta in relation to specific programs administered by the Association.

Regional Health Authority Global Funding

17. Defining goals and performance measures

We recommend that the Department of Health and Wellness clarify the goals and performance measures for its Regional Health Authority Global Funding methodology.

Accepted in principle. Regional Health Authority (RHA) funding allocation goals will be clearly articulated in written documentation and communicated to RHA Chief Executive Officers for feedback and discussion (by March 2007). Performance indicators for measuring how well the key goals are being achieved will also be set to the extent possible.

18. Non-formula funding adjustments

We recommend that the Department of Health and Wellness analyze the non-formula funding adjustments to ensure their consistency with the goals of Global Funding. Issues arising from this analysis should be resolved.

Accepted. The Department will analyze and document, on an annual basis, all non-formula funding adjustments to ensure their consistency with the objectives of Global Funding.

19. Data improvement

We again recommend that the Department of Health and Wellness continue to improve the data used in the Regional Health Authority Global Funding calculations. (1997–1998 – No. 27)

Accepted. The Department will continue its ongoing efforts to ensure the quality and timeliness of data used in the regional health authority funding allocation methodology.

20. Funding communications

We recommend that the Department of Health and Wellness improve the timeliness of its funding communications to the regional health authorities.

Accepted in principle. When possible, Regional Health Authorities will be informed of their preliminary or actual budget allocation in sufficient time to allow for the finalization of their annual health plans.

21. Coordination of capital and operating decisions

We recommend that the Department of Health and Wellness ensure that capital and operating funding decisions for regional health authorities are coordinated.

Accepted in principle. It is recognized that health infrastructure project have significant implications for the operational funding requirements of health regions. Health and Wellness will work with regions to develop a policy framework for ensuring that adequate operational resources will be available for new facilities.

Cross-Ministry

22. IT project management

We recommend that the Deputy Minister of Restructuring and Government Efficiency provide guidance to Deputy Ministers and their Chief Information Officers on their responsibilities for overseeing information technology projects.

Accepted. Restructuring and Government Efficiency introduced these recommendations to the Chief Information Officers (CIO) council in July 2006 from which a CIO sub committee was established to define and direct efforts necessary to ensure clarification and recognition of project sponsors' responsibilities for information technology project management. The sub committee will meet and an action plan will be established to ensure awareness of the Auditor General recommendations and to develop roles and responsibilities of each ministry.

Advanced Education

23. Effective monitoring of employers providing apprenticeship training

We recommend that the Department of Advanced Education improve its monitoring of employers providing apprenticeship training by:

1. improving the accuracy of its information on active employers,
2. ensuring that its records of the visits by its staff to employers are available to its field staff and management, and
3. improving its performance evaluation of staff carrying out these visits.

Accepted. The Department will ensure that its processes relating to the employer visits are improved by March 2007, including making field staff aware of past compliance issues at worksites and providing them with information about employers with the potential for training opportunities. The Department will also review criteria for evaluating field staff performance in relation to the achievement of program goals.

Agriculture, Food and Rural Development

24. Verifying eligibility for Farm Fuel Benefit program

We recommend that the Department of Agriculture, Food and Rural Development improve its administration of the Alberta Farm Fuel Benefit program by:

- verifying information on completed program application forms, and
- requiring applicants to regularly renew their registration in the program.

Accepted. Plans and processes are well underway for a renewal that will commence in 2006. It is anticipated that the renewal process will be continuous with one-third of the registrants renewing their eligibility each year. A new partnership arrangement between the Department and the Agriculture Financial Services Corporation (AFSC) will involve AFSC in the renewal process. AFSC will be able to assist in the verification of applications by accessing information relating to the programs that they deliver such as the Canadian Agriculture Income Stabilization Program, production insurance and lending programs.

Education

25. School board budget process

We recommend that Alberta Education improve the school board budget process by:

- Providing school boards as early as possible with the information needed to prepare their budgets (e.g. estimates of operating grant increases and new grant funding, and comments on financial condition evident from their latest audited financial statements).
- Requiring school boards to use realistic assumptions for planned activities and their costs and to disclose key budget assumptions to their trustees and the Ministry.
- Establishing a date for each school board to give the Ministry a trustee-approved revised budget based on actual enrolment and prior year actual results.
- Re-assessing when and how the Ministry should take action to prevent a school board from incurring an accumulated operating deficit.

Accepted in principle. Alberta Education is committed to working with representatives from school jurisdictions to ensure that school trustees and administrators are provided with comprehensive and timely information to enable them to make informed decisions that take into account local priorities and conditions while maintaining the integrity of provincial policies and priorities. The implications of the recommendations will be assessed in consultation with stakeholders. The Department will explore strategies to deal with the concerns identified to ensure implementation of effective and practical frameworks to enable informed decision and making at a jurisdictional level.

26. Interim reporting—minimum standards and best practices

We recommend that Alberta Education work with key stakeholder associations to set minimum standards for the financial monitoring information provided to school board trustees.

We also recommend that Alberta Education work with the key stakeholder associations to provide information to trustees about:

- the characteristics of a strong budgetary control system
- best practices for fulfilling financial monitoring responsibilities

Accepted. Alberta Education will assist key stakeholder associations to establish minimum standards for interim reporting to trustees and to provide information to trustees about the characteristics of a strong budgetary control system and best practices for fulfilling their financial monitoring responsibilities. We expect to exercise a leadership role, while respecting the autonomy and assigned responsibilities of jurisdictional authorities. Given the diversity of school jurisdictions and the potential impact of this recommendation on boards and their administrations, implementing this recommendation will require extensive consultation with stakeholders.

Energy

27. Assurance on well and production data

We again recommend the Department of Energy:

- complete its risk assessment and evaluate the assurance obtained from the Petroleum Registry System and the Department's controls over well and production data;
- communicate to the Alberta Energy and Utilities Board how much assurance, if any, the Department needs over the completeness and accuracy of well and production data.

Accepted. The Department of Energy and the Alberta Energy and Utilities Board (EUB) have formed two joint committees to identify the volumetric data elements and evaluate the potential risk of those data elements in the calculation of royalty. The EUB will be advised of those data elements which are considered to have the highest risk to the accurate calculation of royalties.

It should be note, however, that in the Ministry's opinion, the calculation of royalty based on the production reported is in all respects materially accurate.

Environment

28. Water Well Drilling

We recommend that the Department of Environment improve its system to regulate water well drilling by:

- Ensuring that drillers and drilling companies meet approval requirements;
- Implementing controls to ensure that water well drilling reports are:
  - received on time,
  - complete and accurate, and
  - accurately entered into the Groundwater Information System;
- Obtaining assurance that water well drilling activities in the field meet legislated standards.

Accepted. The Department will update and enhance our processes related to water well drilling.

29. Contaminated sites information system

We again recommend that the Ministry of Environment implement an integrated information system to track contaminated sites in Alberta.
(2002–2003 – No. 12)

Accepted in principle. During the next three years, the Department will implement a system related to contaminated sites.

Finance

30. Supplementary Retirement Plans (SRPs)

We recommend that the Department of Finance assess the annual and cumulative costs and risks associated with Supplementary Retirement Plans. Further, we recommend that the Department review the Treasury Board Directives to ensure that the amount disclosed as the total compensation of each senior executive includes Supplementary Retirement Plan benefits earned in the year.

Under review. Finance and Treasury Board are currently reviewing the recommendation ad anticipate the review to be complete in 2007.

Health and Wellness

31. 2005 Ministry annual report results analysis

We recommend that the Ministry of Health and Wellness explain and quantify annually—in its annual report—key factors affecting health care costs.

Accepted. Information presented can be improved to enhance accountability for health care costs. Adequacy of information for reporting is subjective and there is a need to balance between high level and detailed information.

32. Performance measures

We recommend that the Ministry of Health and Wellness link health costs to outputs for the Ministry as a whole—in its annual report.

Accepted. Health and Wellness is presently working on a proposed new reporting structure as part of the three-year health authorities' plan that will improve cost disclosure and facilitate the linking of output measures to costs. This reporting structure will take into account the need to be consistent and cost effective in this accountability process.

33. Analysis of physician billing information

We recommend that the Department of Health and Wellness strengthen its processes to analyze and investigate anomalies in physician billing information. (2000–2001 – No. 17)

Accepted in principle. Health and Wellness has taken steps to acquire better analytical tools and more professional staff to facilitate the analysis and investigation of physician billing information.

34. Information technology control environment

We again recommend that the Department of Health and Wellness carry out a comprehensive risk assessment of its IT environment, and develop and implement an IT disaster recovery plan. (2001–2002 – No. 24)

Accepted in principle. Health and Wellness (H&W) is currently carrying out a comprehensive risk assessment, in the order of business plan priorities, of all of it approximately 134 critical information systems. H&W will have a partial disaster recovery plan operating by the end of this fiscal year and a full plan will be in place in approximately three years.

Regional Health Authorities

35. Capital Health: Accurate financial information

We recommend that management of Capital Health provide its Audit and Finance Committee with complete and accurate financial information.

Accepted. To ensure that estimates are as refined as possible, management is documenting the reason and methodology for all significant estimates. This will be reviewed and approved by a senior person within Capital Health management. Capital Health is reviewing, and where appropriate, updating its policies and procedures.

36. Calgary Health Region: Monitoring service provider compliance and performance

We recommend that the Calgary Health Region monitor its contract service provider's performance using the service-level standards and reporting timelines that the Region and the contract service provider agreed to in May 2006.

Accepted. The Calgary Health Region is recruiting to fill five service manager positions to support the contract manager and to monitor service provider performance. The Calgary Health Region is presently working with its contract service provider to correct the deficiencies in services and reporting identified by the audit report.

Restructuring and Government Efficiency

37. Physical security

We recommend that the Ministry of Restructuring and Government Efficiency improve the environmental and security controls of the data centres it maintains.

Accepted. The Ministry has developed an evaluation template to be used to validate the security and environmental status of each ministry based server room in use across the Government of Alberta. Each server room will be assessed against this template and recommendations developed to bring each into security compliance.

Report of the Auditor General of Alberta—November 2006

Alberta Alcohol and Drug Abuse Commission (AADAC)—Contracting practices

1. Internal controls

We recommend that management improve controls over contracting by:

- ensuring adequate segregation of duties exists over the contracting process
- monitoring and verifying contractors' compliance with contract terms and conditions

Accepted. AADAC has taken steps to enhance its financial processes to ensure adequate segregation of duties and has put in place additional monitoring of the terms and conditions of contracts, including the establishment of an internal Contracts Review Committee.

2. Academic credentials and criminal records check

We recommend that:

- for prospective employees, AADAC verify credentials such as university diplomas with granting institutions
- AADAC ensure criminal records checks are completed in accordance with their policy

Accepted. AADAC has instituted new procedures to verify all credentials with granting institutions and ensure compliance with the Commission's policy on criminal record checks.

3. Board governance

We recommend that the Board, at least annually, receive reports from management on the design and effectiveness of AADAC's internal controls.

Accepted. The Audit Committee and the Board currently receive reports on internal controls and risk management. We will now ensure that this occurs on an annual basis.

Aboriginal Affairs and Northern Development—Métis Settlements Ombudsman

4. Role of Métis Settlements Ombudsman

We recommend the Department of Aboriginal Affairs and Northern Development review how it handles the Métis Settlements Ombudsman role and:

- ensure any contract for ombudsman services is adequately monitored and managed to ensure government objectives are achieved, or
- establish an Office of the Métis Settlements Ombudsman in accordance with the *Métis Settlements Act* with corresponding regulations, or
- provide ombudsman services under other such processes or options that maintain the principles of independence and impartiality.

Accepted. The Department of Aboriginal Affairs and Northern Development is currently working on an implementation plan to address the recommendation. The implementation plan will be completed in 2007.

Infrastructure and Transportation—Capital grants to Métis Settlements

5. Capital grants to Métis Settlements

We recommend that the Department of Infrastructure and Transportation implement an effective risk-based system to ensure that recipients of Rural Transportation Grants and Street Improvement Program grants comply with the terms and conditions of those grants.

Accepted. The Department of Infrastructure and Transportation will implement a more effective risk-based system to ensure that recipients of the Rural Transportation Grants and the Streets Improvement Program grants comply with the terms and conditions of those grants.

Lakeland College—Contracting practices

6. Contract policies and procedures

We recommend that Lakeland College review and amend its contract management procedures to follow best practice, including, but not limited to:

- conducting background checks on companies that are not known to the College prior to entering into contracts
- updating policy to require employees to disclose conflicts of interest
- providing guidance on monitoring performance against contract terms
- retaining only final signed version of contracts

Accepted. We will review our contract management procedures and amend them as necessary. We expect to implement the recommendation by January 31, 2007.

7. Monitoring performance

We recommend that Lakeland College improve supervision of its contracting staff.

Accepted. As noted in the auditor's findings, numerous meetings and corrective e-mails supplemented by formal evaluation all took place with the former General Manager of Business and Industry Training. Recognizing that there were some issues, management further improved supervision by performing the following:

- As of July 1, 2006 a new position, Director of Extension Services, was created to oversee the operations of Business and Industry Training and other extension programming.

Supervision of the General Manager of B.I.T. was always present and increased in July. It is also important to note in the auditors' findings that there were no concerns expressed by any of the parties contracting with the College. We will implement additional reporting and monitoring measures to further improve supervision of contracting staff beginning in January 2007.

We also recommend that Lakeland College monitor its contract performance against contract terms, and profitability of individual contracts in the Business Unit.

Accepted. We will implement this recommendation by January 31, 2007.

8. International Students

We recommend that Lakeland College enforce its policy for involvement with international students.

Accepted. We will commit to train all deans, directors and appropriate managers at their council meetings. This will take place by January 31, 2007.

Post Secondary Institutions

9. Grant MacEwan College construction management

We recommend Grant MacEwan College ensure that signed contracts (interim or final) for construction projects are in place before projects start.

Accepted. Improvement should be made in the timing of contract signing relative to commencement of services. While various parameters may not allow for absolute contract completion prior to service commencement, significant delays should not be incurred. Policies will be adjusted to ensure advance services and delays in contract signing are minimized.

10. Donations to Grant MacEwan College

We recommend that Grant MacEwan College establish a policy clearly indicating it will not solicit or accept donations with participating vendors during a tendering process.

Accepted. Procurement policy will be adjusted to ensure the College avoids any conflict of interest, real or perceived, by disallowing bidders from providing donations or gifts to the College during the tender process.

11. Southern Alberta Institute of Technology construction management

We recommend the Southern Alberta Institute of Technology ensure signed contracts (interim or final) are in place for construction projects prior to services being rendered.

Accepted. Management will investigate industry standard practices for construction contracts, report back to its Campus Development and Audit Committees and effect the necessary changes to SAIT's practices.

Agriculture, Food and Rural Development—Expense accounts

12. Processes for reporting and dealing with allegations of employee misconduct

We recommend that the Department of Agriculture, Food and Rural Development improve its systems for reporting and dealing with allegations of employee misconduct.

Accepted. The Department will work to develop and implement a policy which will outline appropriate processes for reporting and responding to allegations of employee misconduct.

Reporting the status of recommendations

We require the government to agree to an implementation date for each recommendation it accepts. Typically, we do not report on the progress of an outstanding recommendation until management has had sufficient time to implement the recommendation and we have completed our follow-up audit work.

Status of recommendation	What we say in the report
Implemented	We briefly explain how the government implemented the recommendation.
Recommendation repeated	We explain why we are repeating the recommendation and what the government must still do to implement the recommendation.
Progress report	We provide information when we consider it useful for MLAs to understand management's actions.

Recommendations more than 3 years old are shown on page 218.

Recommendations more than 3 years old

We use 3 years as a performance measure for when we expect management to implement our recommendations. The following table shows the status of numbered recommendations more than 3 years old. Currently, there are 26 numbered recommendations that are not yet implemented—we are repeating one of them in this report.

	Total numbered recommendations [1]	Fully Implemented [2]	Not yet implemented
1996–1997	26	25	1
1997–1998	47	45	2
1998–1999	28	24	4
1999–2000	33	30	3
2000–2001	26	23	3
2001–2002	26	18	8
2002–2003	26	21	5
			26

This is the recommendation we are repeating in this report:

Advanced Education and Technology

- 2006–2007, No. 19: Grant MacEwan College—Financial Processes (*2000–2001, No. 39*)

[1] Excludes repeated recommendations
[2] Includes not repeated due to changed circumstances

Work of the Office

The Auditor General audits the financial statements of every ministry, department, regulated fund, and provincial agency. These financial statement audits and auditing the performance measures cost $14.7 million in fiscal 2007. The remainder of our resources, $3.9 million, was used to perform systems audits to improve the use of public resources, as required by section 19(2)(d) and (e) of the *Auditor General Act*.

There are four sources that we use to identify potential audit work that could improve the use of public resources. These sources are:

- knowledge of public sector program objectives, risks, controls and accountability gathered over time and specifically to plan current financial statement audits
- information about transactions, assets and liabilities obtained while doing financial statement audits
- concerns expressed by MLAs, legislative committees and the public
- requests for assistance from management of the organizations we audit

To get to a manageable number of systems audits, we prioritize the potential issues by considering whether our audit work would result in recommendations to improve the safety and welfare of Albertans, the security and use of the province's resources, or the governance and ethics with which government operations are managed.

We know we can be effective if we can persuade senior government managers to implement our recommendations; we also know that their receptiveness to our suggestions is influenced by their perception of our knowledge and experience, and our understanding of their business. This is why we work with management to identify issues and recommend solutions before the issues become more serious problems.

Our follow-up work on recommendations from previous systems audits is an in-depth process because we re-perform the audit testing to provide evidence that the standards (criteria) we used for our original audit are now fully met. We work with management to obtain plans and timetables for implementation of the recommendations they have accepted, keeping in mind the expectation that implementation should occur within three years.

Compliance with the law

We are satisfied that the transactions and activities we examined in financial statement audits complied with relevant legislative requirements, apart from the instances of non-compliance described in this report. As auditors, we only

test some transactions and activities, so we caution readers that it would be inappropriate to conclude that our testing would identify all transactions and activities that do not comply with the law.

Overview of the Annual Report

Guidance to readers

1. What the report does

This annual report describes:

- what the Alberta government and its ministries and other entities should do to improve their systems,
- the results of our financial statements audits of the government and its ministries and other entities, and
- the results of performing specified auditing procedures (see Glossary) on ministry performance measures.

2. Structure of the report

Volume 2 of this report has a chapter for each ministry. If we have recommendations for a ministry, its chapter has four parts:

- ***Summary*** highlights what a ministry must do to improve its systems.
- ***Overview*** briefly describes a ministry and its agencies, boards, and commissions.
- ***Scope*** explains the extent of our work in a ministry—auditing its financial statements and usually, examining some of its systems. We choose which systems to audit based on our assessment of how significant a system is and the risk that it may not meet certain criteria. The greater the significance and risk, the more likely it is that we'll audit a system—for more detail, see *Systems audit* in Glossary.
- ***Our audit findings and recommendations*** describes problems we found and solutions we recommend. We number what we consider to be our most important recommendations and require a response to them from the government.

If we have no recommendations for a ministry, the chapter is condensed. The report also includes:

- a list of this year's recommendations—see Volume 1, page 15.
- a Cross-Ministry chapter applying to several ministries or the whole government—see Volume 1, page 171.
- a chapter on the Government of Alberta annual report—see Volume 1, page 183.
- a summary of all outstanding recommendations—Volume 2, page 197.
- a table of outstanding recommendations that are more than three years old—Volume 2, page 218.
- an index—Volume 2, page 267.
- a **Glossary** explaining specialized words and phrases we use in the report—Volume 2, page 261.

Report subsections

In each chapter, the part called *Our audit findings and recommendations* has a subsection for each topic (we sometimes combine shorter subsections). If we have a recommendation on a topic, the subsection normally has the following five subheadings:

1. *Recommendation*
2. *Background*
3. *Criteria: the standards we used for our audit*
4. *Our audit findings*
5. *Implications and risks if recommendation not implemented*

To understand how these subsections fit together, it helps to know how we do a systems audit—for more detail, see *Systems audit* in Glossary.

Auditor General Act

Chapter A–46

Key sections

11 Auditor General as auditor
14 Access to information
14.1 Evidence under oath
16 Reliance on auditor
17 Special duties of Auditor General
18 Annual report on financial statements
19 Annual report of Auditor General
20 Special reports
20.1 Assembly not sitting
28 Report after examination
29 Advice on organization, systems, etc.

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows:

Auditor General as auditor

11 The Auditor General

(a) is the auditor of every ministry, department, regulated fund and Provincial agency, and

(b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

RSA 1980 cA-49 s12;1995 cG-5.5 s17; 2004 c2 s1(23)

Access to information

14(1) The Auditor General is at all reasonable times and for any purpose related to the exercise or performance of the Auditor General's powers and duties under this or any other Act entitled to access to the records of, and electronic data processing equipment owned or leased by

(a) a department, fund administrator or Provincial agency, or

(b) a Crown-controlled organization or other organization or body of which the Auditor General is the auditor.

(2) The following persons shall give to the Auditor General any information, records or explanations that the Auditor General considers necessary to enable the Auditor General to exercise or perform the Auditor General's powers and duties under this or any other Act:

(a) present or former public employees, public officials or personal service contractors;

(b) present or former employees, officers, directors or agents of a Crown-controlled organization or other organization or body of which the Auditor General is the auditor.

(3) The Auditor General may station any employee of the Office of the Auditor General in the offices of

(a) a department, fund administrator or Provincial agency, or

(b) a Crown-controlled organization or other organization or body of which the Auditor General is the auditor,

for the purpose of enabling the Auditor General to exercise or perform the Auditor General's powers and duties under this or any other Act more effectively, and the department, fund administrator, Provincial agency, Crown-controlled organization or other organization or body shall provide the necessary office accommodation for an employee so stationed.

(4) The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained.

RSA 1980 cA-49 s15; 2004 c15 s5

Evidence under oath

14.1**(1)** In conducting an audit or examination or performing any other duty or function under this or any other Act, the Auditor General may by a notice require any person

(a) to attend before the Auditor General to give evidence under oath with respect to any matter related to the audit, examination or other duty or function, and

(b) to produce any records respecting the matter referred to in the notice.

(2) If a person fails or refuses to comply with a notice under subsection (1), the Court of Queen's Bench, on the application of the Auditor General, may issue a bench warrant requiring the person to attend before the Auditor General in compliance with the notice.

(3) If a witness refuses

(a) to give evidence in compliance with a notice under subsection (1),

(b) to answer any questions before the Auditor General pursuant to the notice, or

(c) to produce any records referred to in the notice,

the Court of Queen's Bench, on the application of the Auditor General, may commit the witness for contempt.

(4) A person who is given a notice under subsection (1) shall not be excused from giving evidence or from producing records on the ground that the evidence or records might tend to incriminate the person or subject the person to a penalty or forfeiture.

(5) A witness who gives evidence or produces records pursuant to subsection (1) has the right not to have any incriminating evidence so given used to incriminate that witness in any other proceedings, except in a prosecution for or proceedings in respect of perjury or the giving of contradictory evidence.

2004 c15 s6

Reliance on auditor

16**(1)** In this section, "regional authority" means a board under the *School Act* or a regional health authority, subsidiary health corporation, community health council or provincial health board under the *Regional Health Authorities Act*.

(2) If the Auditor General is not the auditor of a regional authority, the person appointed as auditor

(a) must give the Auditor General, as soon as practicable after completing the audit of the regional authority, a copy of the person's findings and recommendations and a copy of the audited financial statements and all other audited information respecting the regional authority,

(b) may conduct such additional work at the direction and expense of the Auditor General as the Auditor General considers necessary, and

(c) must co-operate with the Auditor General when the Auditor General performs work for a report to the Legislative Assembly under section 19.

(3) A regional authority must give a person appointed as auditor of the regional authority any information the person requires for the purposes of subsection (2).

(4) If the Auditor General is not the auditor of a regional authority, the Auditor General may rely on the report and work of the person appointed as auditor.

1995 cG-5.5 s17

Special duties of Auditor General

17**(1)** The Auditor General shall perform such special duties as may be specified by the Assembly.

(2) The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of the Auditor General's powers and duties under this or any other Act.

(3) The Auditor General shall present any report prepared by the Auditor General under subsection (1) to the chair of the Select Standing Committee, who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(4) The Auditor General shall present any report prepared by the Auditor General under subsection (2) to the President of the Executive Council and afterwards the Auditor General may, on 3 days' notice to the Speaker of the Assembly, deliver copies of the report to the Speaker, who shall forthwith distribute the copies to the office of each Member of the Assembly.

(5) After the Speaker has distributed copies of the report under subsection (4), the Auditor General may make the report public.

(6) Despite subsection (4), if there is no Speaker or if the Speaker is absent from Alberta, the Auditor General may give the notice under subsection (4) to the Clerk of the Assembly, who shall comply with subsection (4) as if the Clerk were the Speaker.

RSA 1980 cA-49 s17; 2004 c15 s7

Annual report on financial statements

18(1) After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

(2) A report of the Auditor General under subsection (1) shall

(a) include a statement as to whether, in the Auditor General's opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles,

(b) when the report contains a reservation of opinion by the Auditor General, state the Auditor General's reasons for that reservation and indicate the effect of any deficiency on the financial statements, and

(c) include any other comments related to the Auditor General's audit of the financial statements that the Auditor General considers appropriate.

RSA 1980 cA-49 s18;1995 c23 s3

Annual report of Auditor General

19**(1)** After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

(a) on the work of the Office of the Auditor General, and

(b) on whether, in carrying on the work of that Office, the Auditor General received all the information, reports and explanations the Auditor General required.

(2) A report of the Auditor General under subsection (1) shall include the results of the Auditor General's examinations of the organizations of which the Auditor General is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which the Auditor General has observed that

(a) collections of public money

(i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,

(ii) have not been fully accounted for, or

(iii) have not been properly reflected in the accounts,

(b) disbursements of public money

(i) have not been made in accordance with the authority of a supply vote or relevant Act,

(ii) have not complied with regulations, directives or orders applicable to those disbursements, or

(iii) have not been properly reflected in the accounts,

(c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,

(d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or

(e) when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with,

and shall call attention to any other case that the Auditor General considers should be brought to the notice of the Assembly.

(3) In a report under subsection (1), the Auditor General may

(a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which the Auditor General is the auditor on any matter contained in them and on

(i) the accounting policies employed, and

(ii) whether the substance of any significant underlying financial matter that has come to the Auditor General's attention is adequately disclosed,

(b) include summarized information and the financial statements of an organization on which the Auditor General is reporting or summaries of those financial statements, and

(c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

(4) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly on the results of the examinations of the regional authorities referred to in section 16.

(5) A report under this section shall be presented by the Auditor General to the chair of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(6) The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in the Auditor General's opinion, have been or are being rectified.

RSA 1980 cA-49 s19;1995 cG-5.5 s17;1996 cA-27.01 s22

Special reports

20**(1)** The Auditor General may prepare a special report to the Assembly on any matter of importance or urgency that, in the Auditor General's opinion, should not be deferred until the presentation of the Auditor General's annual report under section 19.

(2) A report under this section must be presented by the Auditor General to the chair of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

RSA 1980 cA-49 s20

Assembly not sitting

20.1**(1)** When the Assembly is not sitting and the Auditor General considers it important that a report presented to the chair of the Select Standing Committee under section 17(3), 19(5) or 20(2) be made available to the Members of the Assembly and to the public, the Auditor General may, on 3 days' notice to the Speaker of the Assembly, deliver copies of the report to the Speaker, who shall forthwith distribute the copies to the office of each Member of the Assembly.

(2) After the Speaker has distributed copies of the report under subsection (1), the Auditor General may make the report public.

(3) Despite subsection (1), if there is no Speaker or if the Speaker is absent from Alberta, the Auditor General may give the notice under subsection (1) to the Clerk of the Assembly, who shall comply with subsection (1) as if the Clerk were the Speaker.

(4) Nothing in this section dispenses with the requirement of the chair of the Select Standing Committee to lay a report before the Assembly pursuant to section 17(3), 19(5) or 20(2).

2004 c15 s8

Report after examination

28 The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in the Auditor General's examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Minister of Finance of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Minister of Finance's powers and duties.

RSA 1980 cA-49 s28; 2004 c15 s9

Advice on organization, systems, etc.

29 The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which the Auditor General is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body.

RSA 1980 cA-49 s29

Committees and Agents

Standing Committee on Legislative Offices

Reports issued under section 19 of the *Auditor General Act* are tabled in the Legislative Assembly by the Chairman of the Standing Committee on Legislative Offices. Members of the Committee on June 14, 2007, the day the Assembly last adjourned were:

Dave Rodney, Chair
Laurie Blakeman
Wayne Cao
David Coutts
Denis Ducharme
Jack Flaherty
Richard Magnus, Deputy Chair
Richard Marz
Barry McFarland
Raj Pannu
George VanderBurg

Public Accounts Committee

The Public Accounts Committee acts on behalf of the Members of the Assembly in examining the government's management and control of public resources. Our *Annual Report* and the ministry annual reports are used by the Committee in its examination of the use and control of public resources. The members are:

Hugh MacDonald, Chair
Bill Bonko
Neil Brown
Mike Cardinal
Harvey Cenaiko
Harry Chase
Alana DeLong
Clint Dunford
David Eggen
Raymond Prins, Deputy Chair
Heather Forsyth
Denis Herard
Art Johnston
Richard Miller
Dave Rodney
Ivan Strang
Len Webber

Audit Committee

Before being tabled, annual reports are made available to an Audit Committee in accordance with section 24 of the *Auditor General Act*. The members of the Audit Committee as at the date of this report, all of whom were appointed by Order in Council, are:

George Cornish, Chair
Don Wilson
John Watson
Ted Allen
The Hon. Lloyd Snelgrove
Terry Gomke
Tracey Ball

Agents

The Auditor General's Office has continued the policy of utilizing the services of firms of private sector chartered accountants. These firms act as our agent under section 9 of the *Auditor General Act*, and their contributions in supplementing the staff resources of the Auditor General's Office are gratefully acknowledged. Agents acting in respect of the fiscal year ended March 31, 2007, were as follows:

BDO Dunwoody LLP
Collins Barrow Edmonton LLP
Deloitte & Touche LLP
Ernst & Young LLP
Hawkings Epp Dumont LLP
Johnston, Morrison, Hunter & Co. LLP
King & Company
KPMG LLP
Meyers Norris Penny LLP
PricewaterhouseCoopers LLP
Young Parkyn McNab LLP

Results analysis

March 31, 2007

Highlights

We had a successful and challenging year. In addition to completing 199 assurance audits, we conducted 125 systems audits. In Volume 1 of the *2005–2006 Annual Report of the Auditor General* (October 2006), we reported the results of four major systems audits: *Drinking Water*, *Food Safety*, *Reforestation*, and *Regional Health Authority Global Funding*. Volume 1 also included key recommendations on information technology project management, information system controls, monitoring the apprenticeship program, farm fuel benefit program eligibility, school board budgeting, assurance on well and production data and royalty revenue adjustments, and health care costs. In the *Report of Auditor General of Alberta* (November 2006), we released results of 6 other systems audits on contracting practices at the Alberta Alcohol and Drug Abuse Commission, Métis Settlements Ombudsman, capital grants to Métis' Settlements, general computer controls in colleges, and expense account abuse at Agriculture and Food.

Our Office faced two significant challenges: high staff turnover and implementing new assurance auditing standards issued by the Canadian Institute of Chartered Accountants (CICA). These two factors required us to spend 17,000 more hours (14%) than we spent last year to complete our assurance work.

The heated Alberta economy means that other organizations are seeking our accountants and auditors. We lost 21% of our professional staff, primarily at senior audit levels. Qualified staff are crucial to managing our assurance and systems audits and overseeing new and temporary audit staff. New staff—permanent and temporary—increase the demand for coaching and supervision from remaining senior audit staff, resulting in an increase in audit hours and in overtime hours of 14%.

Complying with the new assurance auditing standards resulted in more documentation describing and analysing entities' internal controls. We had to conduct more procedures in assessing risks and examine more transactions, especially financial instruments, more closely. Our teams gained a deeper understanding of entities' risks and controls. We look forward to capitalizing on this initial work to achieve greater audit efficiency and effectiveness in the future.

Given the changes in our internal and external environments, we must continue to focus on managing our workload and on obtaining the necessary expertise at the best cost available—to complete our broad range of audits.

Mission

To identify opportunities and propose solutions for the improved use of public resources, and to improve and add credibility to performance reporting, including financial reporting, to Albertans.

The *Auditor General Act* requires the Auditor General, and the staff of the Office of the Auditor General (OAG), to provide independent reporting on government's management of, and accountability practices for, the public resources entrusted to it.

In fulfilling our mission, both the Auditor General and his Office must be—and be seen to be—objective. To ensure this objectivity, we are:

- independent of government
- familiar and comply with accounting and auditing standards recommended by the Canadian Institute of Chartered Accountants
- subject to professional ethical, independence and quality assurance standards

Core businesses

We operate two separate but complementary core businesses: assurance auditing and systems auditing:

1. Assurance auditing—known as attest or financial statement audits
   Assurance audits confirm that the performance reports of government organizations are credible. We say whether the consolidated financial statements of the province, and the financial statements of the ministries, departments, funds and Provincial agencies, are presented fairly in accordance with applicable standards. We also check if transactions comply with the law. In addition, we examine and report on non-financial performance measures that government organizations include in their annual reports.

2. Systems auditing—known as value-for-money audits
   Systems audits examine financial and management control systems of government organizations to identify opportunities for improvement. These are the systems government organizations use to measure the effectiveness of their programs and to manage the risks of missing their objectives of economy and efficiency.

Office performance

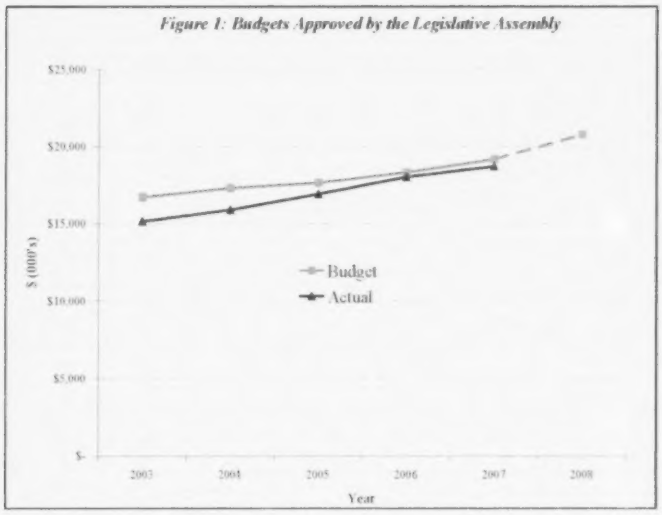


Figure 1: Budgets Approved by the Legislative Assembly

The Legislative Assembly funds our operations. For 2006–2007, it provided us $19,046,000 for operations and $120,000 for capital requirements.

We are returning $473,000 (2% of our budget) to the Legislative Assembly for the 2006–2007 fiscal year. This unspent funding is mainly from postponed systems projects, which agents were going to do.

Figure 1 shows our approved budgets and actual spending over the last five years.

1. Variance of this year's total actual costs compared to the budget

   Schedule 1 of our 2006–2007 financial statements summarizes the costs by ministry—for the fiscal year ended March 31, 2007—of assurance and systems audits. We reported the results from much of this audit work in the *2005–2006 Annual Report of the Auditor General* (October 2006), and in the *Report of the Auditor General of Alberta* (November 2006).

   In 2006–2007, our overall assurance audit costs were $1.8 million (14%) above budget while our systems audit costs were $2.3 million (37%) below budget. This is a significant spending shift from systems to assurance audits. The assurance audits for the ministries of Finance, Advanced Education and Technology, and Health and Wellness exceeded their budgets. This was mainly due to staff turnover, high use of temporary audit staff, and the new CICA assurance auditing standards (mentioned in the *Highlight* section of this analysis). Conversely, our systems audits for the ministries of Children's Services, and Seniors and Community Supports, as well as our cross-ministry systems audit, were significantly under budget. This was primarily due to reduced scope of audits and audits postponed to future years.

2. Variance of this year's total actual costs to last year's

   Overall, actual total costs increased by $778,000, or 4% over last year. For the same reasons as mentioned above, our overall assurance audit costs increased by $2.4 million, or 19%, and systems audit costs decreased by $1.6 million, or 29%.

3. Variances by categories of expenses

3.1 Staff costs

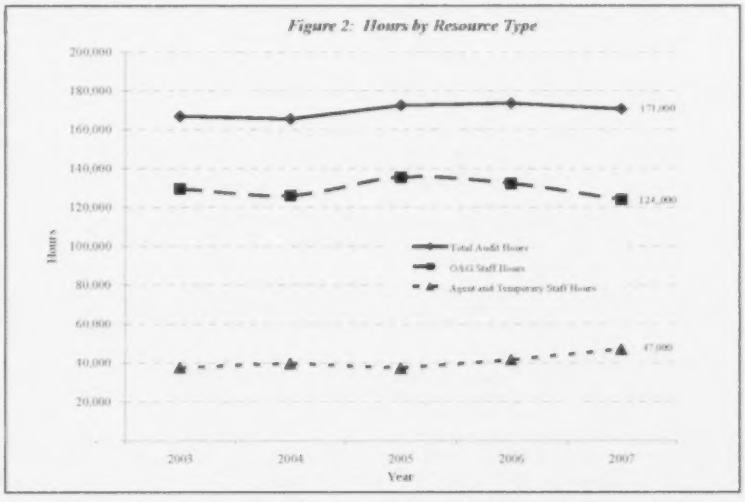
Staff costs make up about 90% of our operating expenses. These comprise salaries and wages for OAG staff, employer benefit program contributions, agent fees, temporary audit services, and general advisory fees.

3.1.1 Salaries, wages, and employer contributions

We budgeted for 131 full-time equivalent positions (FTEs) in 2006–2007. Due to loss of staff, we averaged approximately 117 FTEs throughout the year. The vacancy of 14 FTEs reduced our salaries and wages costs by $997,000 or 10%, which was partially offset by $109,000 or 1% higher-than-budgeted overall compensation rate.

Compared to 2005–2006, our salaries and wages costs increased marginally by $42,000 or 0.5%, which was a 4% overall increase in average salary rates, offset by decreases in FTEs from 122 to 117. However, our employer contributions increased by $143,000 or 10%, due to the employer premium rate increases on various pension plans and medical benefit plans.

Figure 2: Hours by Resource Type



As stated in our business plan, the key forces and trends that shape our auditing work are responding to stakeholder expectations and keeping pace with the changing environment. To carry out our audits, our challenge continues to be building and sustaining organizational capacity. As Figure 2 shows, although our total audit hours were consistent with last year, due to staff shortages, we had fewer available OAG staff hours. This reduction in hours was offset by an increase in temporary audit services. We anticipate the trend will continue given the heated Alberta economy and demand for qualified accountants and auditors. While we will continue to recruit our own staff for 2007–2008, we have lowered our FTE budget from 131 to 122 and increased our temporary audit services budget by $770,000 to $1,955,000. We believe that the trend to increased reliance on temporary audit services must be reversed by us. This is because our ability to cost effectively meet the expectations of Members of the Legislative Assembly and Albertans is reduced.

3.1.2 Agent and other professional services

In the past year, 11 public accounting firms in Edmonton, Calgary, Fort McMurray, Grande Prairie, Lethbridge, Red Deer, and other centres across the province acted as our agents—we still oversee the audit work. Using agents lets us gain skilled resources to meet peak-period

demands, acquire cost-effective specialist skills, obtain a point of reference for comparing our methodology and costs, and save on travel costs.

In 2006–2007, agent fees were $3.7 million, similar to 2005–2006, but below budget by $387,000 or 10%. This budget surplus resulted mainly from postponing 10 systems projects due to a lack of available suitable agents and a lack of experienced OAG senior staff to oversee the agent work.

Hourly costs of accounting firms are approximately 25% higher than our internal rates. Our budget for 2007–2008 for agent fees has increased slightly to $4.3 million. This resulted, in part, from an overall increase in average hourly rate of 6% over last year.

3.1.3 Temporary staff services

We contract with public accounting firms for temporary audit staff during our peak work periods. Up to $1,000,000 of the budget will always be required for such services—even if we can maintain the desired 131 FTEs for a year. In 2006–2007, the cost of temporary staff services was $2,064,000, over budget by $879,000 or 74%. This was also over last year's spending by $747,000 or 57%. The increase directly related to having fewer permanent staff than planned which is evidenced by the reduction in salary costs.

Due to the market demand for accountants and auditors and the challenges of finding and keeping staff, we expect to continue to use more temporary staff than we prefer. As mentioned in our salaries discussion, we have budgeted for higher spending on temporary staff services for 2007–2008.

3.1.4 Advisory services

Advisory services include fees for communications, legal counsel, information systems, and professional practices. In 2006–2007, overall advisory services were under budget by $57,000 or 22%. Most of the variance was due to lower-than-anticipated demand for these services, which depends on the nature and number of special or unusual issues that arise in a year.

3.2 Supplies and services expenses

This spending was slightly above budget, by $52,000 or 2%, resulting from the net of the increases and decreases in a number of expense categories. None of the individual variances were significant.

Supplies and services costs increased by $77,900 or 4% over 2005–2006 due to a combination of:

- an increase in external instructor fees for running more in-house training seminars
- an increase in recruitment advertising to alleviate staff shortages
- an increase in various hardware and software expenses for improving network security
- a decrease in amortization due to fully amortizing more capital assets last year

3.3 Capital investment

In 2006–2007, our capital budget was mainly for technology, including computer servers and network security hardware. Spending was $71,000, below our budget of $120,000. The surplus was mainly because:

- we increased the capital asset threshold from $2,500 to $5,000 in the spring of 2006, meaning that some purchases originally budgeted under capital investment were charged to operating expenses (impact about $27,000)
- the purchase of computer hardware for network security, while budgeted for in 2006-2007, occurred late in 2005–2006, so the current-year budget was unused (impact about $17,000)

In 2007–2008, we plan to replace our laptop computers by bulk purchase and to reconfigure certain offices and workstations. We have budgeted $580,000 in capital for these initiatives.

4. Other performance information

Schedule 2 of our 2006–2007 audited financial statements includes our performance measures for the period April 1, 2006 to March 31, 2007. We use specific performance measures to monitor our performance throughout the fiscal year. These measures provide the foundation for the performance measures in this report.

As part of our upcoming business planning process for 2008–2011, we will review and may revise the performance measures that we use and report.

4.1 Issuance of reports

We issued our reports on the 2005–2006 consolidated financial statements of the province and on the 2005–2006 *Measuring Up* results (performance measures for the province) on target, in June 2006. We also met our target of releasing 90% of auditor's reports for consolidated entities with March 31st year ends by July 15th. Last year, we raised our target for non-consolidated entities from 70% to 80%. But we did not meet this new target. Our actual results were 67% for 2006–2007. However, the vast majority of the audits completed later are for smaller organizations. If smaller audits are excluded, (less than 150 hours—these audits are typically less critical) our results were 78%. We will continue to work with the organizations we audit to improve our audit completion performance.

We issued all but one of our reports on ministry performance measures on or before the target date of September 15, 2006. Although we did not meet our target of 100%, the result has improved from last year's 86% to 96% this year.

4.2 Budgets

Two of our performance measures (1.f & 2.d) indicate the percentage of assurance and systems audit projects completed within their original budgets. The 2006–2007 results show that we missed our new target of 90% (up 10 points from previous target of 80%) for the number of assurance projects over 200 hours completed within 10% of the budgeted costs. Of the 158 completed audits over 200 hours, 93 (or 59%) were under or within 10% of the budget. In general, we exceeded assurance project budgets due to the new assurance auditing standards and staff turnover, especially at the manager level. During the year, we gained 35 new employees; predictably, they needed increased supervision and on-the-job training, thus increasing audit hours.

At 58%, a 4% improvement from last year, we were also short of our target of 70% of systems audits completed within budget. Budgeting for systems audits is challenging because the scope and hours depend largely on the number and type of issues encountered during the audit. We continue to refine our budgeting process by gathering as much information as possible at the planning stage.

These two measures, while useful from a project-management perspective, do not necessarily show audit quality or effectiveness. For example, an audit may uncover significant issues that require additional time to investigate and then report to management. Although this would cause a budget overrun, it also produces a higher-quality audit that adds more value. So we are reviewing the relevance of these two measures as indicators of Office performance.

The other two measures in the budget (1.g & 2.e) compare the relative total Office costs for assurance and systems audits. In 2006–2007, again due to the new assurance auditing standards and staff turnover, we missed our targets of 70% of costs to assurance audits and 30% to systems audits. Actual results were 79% and 21% respectively. While we revised the target to 75% for assurance and 25% for systems for 2007–2008, we plan to revert to the original 70–30 targets for 2008–2009.

4.3 Recommendations

We missed our target for the government to accept 95% of the numbered recommendations in our *2005–2006 Annual Report*. The actual result was 82% (40 of 49). We will work with the government to improve results.

Also, we missed our target of no unimplemented numbered recommendations within 3 years of the government accepting them. As reported in our *2005–2006 Annual Report* on page 250 of Volume 2, the government had not yet implemented 24 of our primary recommendations made before 2002–2003. It was making satisfactory progress on 21 of the 24, but unsatisfactory progress on the remaining 3. The ministries concerned had not rejected these recommendations, but progress was slower than they had planned. Page 218 of this *2006–2007 Annual Report* indicates that 26 recommendations made before 2003-2004 have not yet been implemented. For 25 recommendations, management has made satisfactory progress, but for 1, progress is unsatisfactory.

We met our target of releasing our *2005–2006 Annual Report* in October 2006.

4.4 Corporate initiatives

We survey staff satisfaction every two years; the next survey will be in November 2007. We recognize the importance of staff morale and will continue to improve the overall working environment of the Office. For example, we will focus on increasing communication across the Office, ensuring workloads are fair and reasonable, and compensation is competitive.

Although we did not meet our target of 100% for staff meeting their goals for available time spent on core business functions, 92% (up by 4% from last year) of individuals spent all of their available time on assurance audits, systems audits and staff functions. The employees that did not meet their targets are working with their career advisors to ensure they meet them next year.

We strive to ensure our corporate service functions operate efficiently. These functions include human resource management; training and development; information technology; and accounting and administration. This year, we again met our target of keeping corporate costs no higher than 20% of total Office costs—they were 16%.

The future

Next year will present similar challenges and opportunities as last year did. As part of our 2007-2010 Business Plan, we established the following strategic priorities to meet them:

- Ensure that we deliver relevant, high-quality results—to maximize the value of our resources, we need to ensure that our products are the most relevant and useful to our clients and public-sector management. This starts with ensuring that we meet the requirements in the Auditor General Act. Then we must select projects that examine critical risks. Allocating our staff based on audit risk is key to cost-effectiveness. We must also identify the types of products we provide and the best products to meet expectations of Albertans and MLAs. Ensuring the right mix of technical knowledge and expertise to provide high-quality audits will continue to be a priority. We will focus our resources on making systems audit recommendations that result in improved:

- governance and ethical behaviour—these underpin the success of any organization
- safety and welfare of Albertans—such as food safety, water quality, and services to seniors and children
- security and use of the province's resources—such as reforestation
- Use efficient processes—we continue adapting to the changing standards that apply to financial statement auditors. We will again take on more challenging systems audits, despite high staff turnover. We have experienced much internal change over the last few years. We now need to confirm that our processes are efficiently designed and that all staff follow them. Being efficient lets us meet demands for assurance work on the government's financial statements and performance measures, and to produce useful recommendations.

  We will place a priority on working with management, boards and audit committees of the entities we audit to encourage improved governance practices. In particular, we will focus on improving their understanding of, and ability to report on, the quality of their internal control systems. Effective governance encourages strong controls, resulting in more efficient audits.

- Respond to market demand for our professional staff—the environment we operate in is changing and we face greater demands from external organizations for our staff. Staff turnover is the highest in eight years. Also, key audit executives have or will soon be retiring, so we need to manage succession to ensure continued high-quality leadership in the Office. Our capacity to meet the expectations of our stakeholders and our business plan goals depends on our success in attracting, training and retaining good employees. It also depends on our ability to adapt to a market-driven increase in staff turnover. We need to focus on retaining staff in demand at other places. This means continuing to give them challenging work, a clear career path, and competitive compensation. Also, we will focus on finding new approaches to meeting our staff needs at a reasonable cost.

Alberta Legislature
Office of the Auditor General
Management's Responsibility for Financial Reporting

The accompanying financial statements of the Office of the Auditor General are the responsibility of the management of the Office.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgments. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances in order to ensure that the financial statements are presented fairly in all material respects.

The Office of the Auditor General maintains control systems designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the relevance and reliability of internal and external reporting, and compliance with authorities. The costs of control are balanced against the benefits, including the risks that the control is designed to manage.

The financial statements have been audited by Kingston Ross Pasnak LLP, Chartered Accountants, on behalf of the members of the Legislative Assembly.

[Original signed by Fred J. Dunn, FCA]
Fred J. Dunn, FCA
Auditor General
May 28, 2007

Alberta Legislature
Office of the Auditor General
Financial Statements
March 31, 2007

Auditors' Report

Statement of Financial Position

Statement of Operations

Statement of Cash Flows

Notes to the Financial Statements

Schedule 1: Output Costs by Ministry

Schedule 2: Other Performance Information

KRP LLP
KINGSTON ROSS PASNAK

May 28, 2007
Edmonton, Alberta

AUDITORS' REPORT

To the Members of the Legislative Assembly:

We have audited the statement of financial position of the Office of the Auditor General as at March 31, 2007 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for public sector entities.

[Original signed by Kingston Ross Pasnak LLP]

Kingston Ross Pasnak LLP

Chartered Accountants

Alberta Legislature
Office of the Auditor General
Statement of Financial Position
As at March 31, 2007

	2007	2006
Assets		
Audit fees receivable	$ 1,529,921	$ 1,315,850
Other receivables and prepaids	78,287	122,945
Capital assets (Note 3)	170,328	355,855
	$ 1,778,536	$ 1,794,650
Liabilities		
Accounts payable	$ 1,678,575	$ 1,104,694
Accrued vacation pay	1,171,931	1,085,328
	2,850,506	2,190,022
Net Assets (Liabilities)		
Net liabilities at beginning of year	(395,372)	(329,157)
Net cost of operations	(15,976,813)	(15,212,853)
Net transfer from general revenues	15,300,215	15,146,638
	(1,071,970)	(395,372)
	$ 1,778,536	$ 1,794,650

The accompanying notes and schedules are part of these financial statements.

Alberta Legislature
Office of the Auditor General
Statement of Operations
Year Ended March 31, 2007

	2007		2006
	Budget (Note 5)	Actual	Actual
Personnel			
Salaries and wages (Note 7)	$ 9,721,000	$ 8,832,699	$ 8,790,335
Agent and other audit services fees	4,050,000	3,663,331	3,747,528
Employer contributions	1,625,000	1,603,037	1,459,636
Temporary staff services	1,185,000	2,063,932	1,316,621
Advisory services	261,000	203,799	231,794
Miscellaneous	4,000	3,296	124,585
	16,846,000	16,370,094	15,670,499
Supplies and services:			
Professional fees, training and development	755,000	721,389	607,382
Technology services	435,000	477,175	437,601
Travel	395,000	439,808	441,618
Amortization of capital assets	265,000	256,602	316,772
Materials and supplies	135,000	134,014	153,185
Rental of office equipment	95,000	97,588	87,877
Telephone and communications	75,000	68,458	70,465
Repairs and maintenance	10,000	23,329	20,910
Miscellaneous	35,000	33,442	38,051
	2,200,000	2,251,805	2,173,861
Total office professional services	19,046,000	18,621,899	17,844,360
Audit fee revenue	(2,185,000)	(2,645,086)	(2,631,507)
Net cost of operations for the year (Note 6)	$ 16,861,000	$ 15,976,813	$ 15,212,853

The accompanying notes and schedules are part of these financial statements.

Alberta Legislature
Office of the Auditor General
Statement of Cash Flows
Year Ended March 31, 2007

	2007	2006
Operating transactions:		
Net cost of operations	$ (15,976,813)	$ (15,212,853)
Non-cash transactions:		
Amortization of capital assets	256,602	316,772
	(15,720,211)	(14,896,081)
Increase in audit fees receivable	(214,071)	(131,160)
Decrease (increase) in other receivables and advances	44,658	(70,866)
Increase in accounts payable	573,881	11,533
Increase in accrued vacation pay	86,603	93,096
Net cash used by operating transactions	(15,229,140)	(14,993,478)
Capital transactions:		
Acquisition of capital assets	(71,075)	(156,871)
Disposal of capital assets	-	3,711
Net cash used by capital transactions	(71,075)	(153,160)
Financing transactions:		
Net transfer from general revenues	15,300,215	15,146,638
Net cash provided (used)	-	-
Cash, beginning of year	-	-
Cash, end of year	$ -	$ -

The accompanying notes and schedules are part of these finanacial statements.

Alberta Legislature
Office of the Auditor General
Notes to the Financial Statements
Year Ended March 31, 2007

Note 1—Authority and Purpose

The Auditor General is an officer of the Legislature operating under the authority of the *Auditor General Act, Chapter A-46, Revised Statutes of Alberta 2000*. General revenues of the Province of Alberta fund both the net cost of operations of the Office of the Auditor General and the purchase of capital assets. The Select Standing Committee on Legislative Offices reviews the Office's annual operating and capital budgets.

The Office of the Auditor General exists to serve the Legislative Assembly and the people of Alberta. The Auditor General is the auditor of all government ministries, departments, funds, and Provincial agencies, including regional health authorities, universities, public colleges, and technical institutes. With the approval of the Assembly's Select Standing Committee on Legislative Offices, the Auditor General may also be appointed auditor of a Crown controlled corporation or another organization. The results of the Office's work are reported in the Annual Report of the Auditor General presented to the Legislative Assembly.

Note 2—Significant Accounting Policies and Reporting Practices

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for public sector entities and reflect the following policies and practices:

(a) Audit fees

Audit fee revenue is recognized when billable assurance audits are performed. Audit fees are charged to organizations that are funded primarily from sources other than Provincial general revenues, and to regional health authorities audited with the approval of the Select Standing Committee on Legislative Offices. The fees billed to the regional health authorities only recover the fees charged to the Office by agents.

(b) Output costs

Schedule 1 provides detailed costs for two types of output:

- Assurance auditing results in auditor's reports on financial statements and on performance measures.
- Systems auditing is undertaken to produce recommendations for improved government management of and accountability for public resources in the Auditor General's Annual Report to the Legislative Assembly.

(c) Expenses incurred by others

Services contributed by other entities in support of the Office's operations are disclosed in Note 6.

(d) Capital assets

Capital assets are recorded at cost. Amortization is calculated on a straight-line basis, over the estimated useful lives of the assets, at the following rates:

Computer hardware	33%
Computer software	33%
Office equipment	10%

(e) Pension expense

Pension costs included as part of these statements refer to employer contributions for the current service of employees during the year and additional employer contributions for service relating to prior years.

(f) Valuation of financial assets and liabilities

The amounts reported as audit fees receivable, other receivables and advances, accounts payable and accrued vacation pay approximate their fair values.

Note 3—Capital Assets

	2007			2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	$ 804,315	$ 713,155	$ 91,160	$ 239,182
Computer software	271,550	271,550	-	1,700
Office equipment	743,262	664,094	79,168	114,973
	$ 1,819,127	$ 1,648,799	$ 170,328	$ 355,855

Note 4—Defined Benefit Plans

The Office participates in the multi-employer pension plans: Management Employees Pension Plan and Public Service Pension Plan. The Office also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $920,767 for the year ended March 31, 2007 (2006: $801,667).

At December 31, 2006, the Management Employees Pension Plan reported a deficiency of $6,765,000 (2005: $165,895,000) and the Public Service Pension Plan reported a deficiency of $153,024,000 (2005: $187,704,000). At December 31, 2006, the Supplementary Retirement Plan for Public Service Managers had a surplus of $3,698,000 (2005: $10,018,000).

The Office also participates in a multi-employer Long Term Disability Income Continuance Plan. At March 31, 2007, the Management, Opted Out and Excluded Plan reported an actuarial surplus of $10,148,000 (2006: $8,311,000). The expense for this Plan is limited to the annual contributions for the year.

Note 5—Budget

The budget shown on the statement of operations is based on the budgeted expenses approved by the Select Standing Committee on Legislative Offices on March 3, 2006. The following table compares the Office's actual expenditures to the voted budgets.

Operating expenses:	
Voted budget	$ 19,046,000
Actual expenses	18,621,899
Unexpended	$ 424,101
Capital investments:	
Voted budget	$ 120,000
Actual expenditure	71,075
Unexpended	$ 48,925

Note 6—Expenses Incurred by Others

The Office had the following transactions with other entities for which no consideration was exchanged. The amounts for these transactions are estimated based on the costs incurred by the service provider to provide the service.

	2007	2006
Expenses incurred by Alberta Infrastructure and Transportation		
Accommodation	$ 580,623	$ 503,245
Amortization of leasehold improvements	5,820	5,820
	$ 586,443	$ 509,065
Expense incurred by the Legislative Assembly's Office		
Audit fee	$ 23,250	$ 20,250

Note 7—Salaries and Benefits

Salaries and benefits of the Auditor General and his Assistants comprise:

	2007				2006
	Base Salary[1]	Other Cash Benefits[2]	Other Non-cash Benefits[3]	Total	Total
Auditor General[4]	$ 206,000	$ 3,502	$ 54,593	$ 264,095	$ 219,118
Assistant Auditor General[5]	157,500	23,000	33,795	214,295	209,349
Assistant Auditor General[6]	157,500	35,069	34,996	227,565	217,793
Assistant Auditor General[7]	145,500	23,000	35,517	204,017	183,331
Assistant Auditor General[8]	145,500	17,000	33,670	196,170	184,021
Assistant Auditor General[9]	-	-	-	-	165,981
	$ 812,000	$ 101,571	$ 192,571	$ 1,106,142	$ 1,179,593

(1) Base salary comprises pensionable base pay.

(2) Other cash benefits include bonuses, vacation payments, and any payments in lieu of employer contributions towards employee non-cash benefits. Accumulated vacation of $12,069 was paid to the Assistant Auditor General[6] (2006: $12,069)

(3) Other non-cash benefits include the Office's share of all employee benefits, and contributions or payments made on behalf of employees, including pension, health care, dental coverage, group life insurance, short and long-term disability plans, WCB premiums, professional memberships and tuition.

(4) Automobile provided, no dollar amount included in benefits and allowances

Ministry responsibilities as at March 31, 2007:

(5) Responsibilities—Health & Wellness.

(6) Responsibilities—Education, Environment, Finance, Service Alberta, Sustainable Resource Development, and Treasury Board.

(7) Responsibilities—Agriculture and Food, Cross-Ministry, Employment, Immigration and Industry, Executive Council, Justice, Seniors and Community Supports, Solicitor General, and Tourism, Parks, Recreation and Culture.

(8) Responsibilities—Children's Services, Energy, Infrastructure and Transportation, International, Intergovernmental and Aboriginal Relations, Legislative Assembly, and Municipal Affairs and Housing.

(9) Position was occupied for nine months in prior year until the Assistant Auditor General retired on December 31, 2005. He continues under contract to be responsible for Advanced Education and Technology.

Note 8 Comparative Figures

Certain 2006 figures have been reclassified to conform to the 2007 presentation.

Note 9 Approval of the Financial Statements

These financial statements were approved by the Auditor General.

Schedule 1

Alberta Legislature
Office of the Auditor General
Schedule of Output Costs by Ministry
For the Year Ended March 31, 2007

	2007 Budget			2007 Actuals			2006 Actuals		
	Assurance Auditing	Systems Auditing	Total	Assurance Auditing	Systems Auditing	Total	Assurance Auditing	Systems Auditing	Total
Work performed by Sector:									
Advanced Education and Technology	$ 3,138,000	$ 731,000	$ 3,869,000	$ 3,431,129	$ 716,080	$ 4,147,209	$ 2,873,220	$ 519,087	$ 3,392,307
Agriculture and Food	430,000	143,000	573,000	533,111	58,623	591,734	357,744	456,472	814,216
Children's Services	760,000	786,000	1,546,000	837,179	269,569	1,106,749	730,225	138,509	868,734
Cross-Ministry	134,000	1,368,000	1,502,000	196,706	1,163,809	1,360,515	140,561	1,349,314	1,489,875
Education	375,000	199,000	574,000	454,723	27,499	482,222	328,801	336,622	665,423
Employment, Immigration and Industry	580,000	161,000	741,000	743,381	31,352	774,733	533,270	102,895	636,165
Energy	413,000	252,000	665,000	598,363	166,781	765,144	387,891	83,921	471,812
Environment	83,000	150,000	233,000	200,742	242,972	443,714	102,511	189,372	291,883
Executive Council	57,000	69,000	126,000	56,355	11,678	68,033	62,882	16,202	79,084
Finance	1,910,000	272,000	2,182,000	2,424,583	119,657	2,544,240	1,940,538	663,933	2,604,471
Health and Wellness	1,480,000	567,000	2,047,000	1,750,353	417,649	2,168,002	1,555,493	314,717	1,870,210
Infrastructure and Transportation	470,000	374,000	844,000	376,180	313,720	689,900	474,408	291,238	765,646
International, Intergov and Aboriginal Relations	106,000	-	106,000	119,346	64,410	183,756	96,464	2,071	98,535
Justice and Attorney General	212,000	15,000	227,000	257,744	8,650	266,394	203,963	40,214	244,177
Legislative Assembly	70,000	8,000	78,000	107,336	2,684	110,020	78,963	6,343	85,306
Municipal Affairs and Housing	327,000	34,000	361,000	321,647	50,185	371,832	514,014	103,116	617,130
Seniors and Community Supports	546,000	520,000	1,066,000	512,365	4,616	516,981	353,417	249,630	603,047
Service Alberta	644,000	230,000	874,000	639,334	41,666	681,000	583,527	128,640	712,167
Solicitor General	277,000	123,000	400,000	316,002	27,495	343,496	224,954	89,130	314,084
Sustainable Resource Development	200,000	124,000	324,000	191,473	137,467	328,940	156,790	320,036	476,826
Tourism, Park, Recreation and Culture	371,000	44,000	415,000	339,828	20,619	360,447	329,452	120,566	450,017
Treasury Board	293,000	-	293,000	298,793	18,046	316,839	293,245	-	293,245
	$ 12,876,000	$ 6,170,000	$ 19,046,000	$ 14,706,673	$ 3,915,226	$ 18,621,899	$ 12,322,333	$ 5,522,027	$ 17,844,360

Schedule 2

Alberta Legislature
Office of the Auditor General
Other Performance Information

GOAL ONE 1 **Independent audits that confirm the reliability and relevance of financial and non-financial performance reporting to the Legislative Assembly**

Performance measures		Target 2006-07	Actual 2006-07	Actual 2005-06
Issuance of Reports				
1.a	Issue our auditor's report on the consolidated financial statements of the province by June 30th each year.[1]	June 30 2006	**June 22 2006**	June 20 2005
1.b	Issue our specified auditing procedures report on the Government of Alberta's performance information contained in Measuring Up by June 30th each year.[1]	June 30 2006	**June 22 2006**	June 20 2005
1.c	The percentage of auditor's reports on financial statements for consolidated entities with March 31st year ends that we issue by July 15th each year.	90%	**91%**	96%
1.d	The percentage of auditor's reports for non-consolidated entities that we issue within 120 days of the entity's year end.[2]	80%	**67%**	70%
1.e	The percentage of specified auditing procedures reports on ministry performance information that we issue by September 15th each year.	100%	**96%**	86%
Budgets				
1.f	The percentage of assurance auditing projects over 200 hours completed within 10% of budgeted costs.	90%	**59%**	61%
1.g	The percentage of costs dedicated to assurance auditing.	< 70%	**79%**	69%

[1] Required by June 30th each year per s. 10 of the Government Accountability Act.
[2] Includes SUCH sector entities.

GOAL TWO 2 Solutions to improve government systems, including organizations' systems for identifying and managing their business risks

Performance measures		Target 2006-07	Actual 2006-07	Actual 2005-06
Recommendations				
2.a	The percentage of the Auditor General's primary recommendations accepted. [1]	95%	**82%**	96%
2.b	The number of the Auditor General's primary recommendations not implemented within 3 years of acceptance.	None	**24**	20
2.c	Release the Auditor General's Annual Report in October of each year.	October 2006	**October 2 2006**	October 3 2005
Budgets				
2.d	The percentage of systems auditing projects completed within budgeted costs. [2]	70%	**58%**	54%
2.e	The percentage of costs dedicated to systems auditing.	> 30%	**21%**	31%

[1] Acceptance does not include recommendations accepted in principle or under review.

[2] Methodology focuses on all systems audits, whether completed or not during the year. Projects where actual costs were less than 15% of budget were considered not started and were excluded from the count.

CORPORATE INITIATIVES

Performance measures	Target 2006-07	Actual 2006-07	Actual 2005-06
3.a The percentage of employees expressing satisfaction working for the Office.[1]	N/A	**N/A**	77%
3.b The percentage of staff meeting Office targets for available time spent on core business functions.[2]	100%	**92%**	88%
3.c Corporate operating costs as a percentage of total Office costs.	Less than 20%	**16%**	16%

[1] This biennial survey was conducted in March 2006. It is planned to be conducted annually starting in November, 2007.

[2] The methodology annually limits each staff member to 25 hours of unassigned time and 100 hours for personal administration.

The employees of the Office of the Auditor General as of the date of this report, and students who worked over the summer or completed a co-op term, are:

Al Neid, CA
Alex Mosaico
Alla Gibson
Alissa Klapstein
Amanada Liu
Andrew Lerohl
Angela Karwal
Annie Shiu, CHRP
Arlene DeLuca
Audrey Hayward
Aynour Salama, CA
Barb Thompson, CA
Becky Williams
Ben Zhao
Betty LaFave, CA, CPA
Brad Ireland, CA
Brad Klaiber, CA
Cam Funnell
Carrie Green, MCP
Chris Poulette
Cindy Brown
Cindy Logan
Cornell Dover, CA·IT/CISA
Darrell Pidner, MBA, CFE
Debbie Bryant
Deborah Little
Diana Potapovich
Dimitri Ospishchev
Donna Banasch, CMA, CA
Donna Chapman
Doug Zurbrigg
Doug Wylie, CMA
Ed Ryan, DIFA, CFE
Elaine Lu
Ellen Gao
Elma Handzic
Emina Hidic
Eric Leonty, CA
Eric Wagner, CA
Eva Lee
Evan Ronyk
Fred J. Dunn, FCA
Gina Fowler, CPS
Graeme Arklie, CA
Graham Quast
Gurdeep Minhas
Holly Opalinsky, CA
Hongxiang Shen
Ian Sneddon, CA
Irina Feldesh
Jackie DiLullo
Jacyln Smith
James Er
Jane Staples, CA
Janice Kuethe, CGA
Jason Song, CA
Jaspreet Kaur
Jeff Dumont, CA
Jeff Sittler, CA
Jeremy Reimer
John Jenkins
John Margitich
Karen Hunder, CA
Karen Schmidt
Karen Tran
Karim Pradhan, CA
Kathy Anderson
Kathy Vasko, CHRP
Katy Yuan
Kerry Langford, LLB
Laurie Yuzwa, CA
Lisa LaRocque, CA
Lin Cui
Linda Nham
Linh Trang
Lindsey DeGusti
Lori Bonhage
Lori Trudgeon
Loulou Eng, CMA
Marcela Zicha-Green, CA
Mary-Jane Dawson, CA
Maureen Debaji, CMA
May Lin
Medley Russel
Meriem Aiffa
Merwan Saher, CA
Michael Hoffman
Michael Huberdeau
Mike Shorter, CFE
Mike Stratford, CA
Michael Ta
Michelle Fleming, CA
Monica Fong
Nancy Wang
Nathan Hum
Nisha Sachedina, CISA
Noel Chin
Norilyn Santos
Pablo Binas
Pamela Appelman
Patrick Dunnigan, CISA
Patty Hayes, CA
Patty Glasgow
Pelma Jore
Peter Zuidhof, CGA
Phil Minnaar, CA
Priscilla Chen
Priscilla Lee
Queena Dong
Ram Rajoo, CA
Ron Meleshko, LLB
Ronda White, CA
Rosa-Maria Schwaiger
Sergei Pekh, MBA
Shawn Dineen, MCP
Shelley Ma
Simon Wong
Sujit Varghese
Susan Smolley, CMA
Svetlana Akishyna
Teresa Wong, CA, CPA
Tim Jansen, CFE
Tim Lamb, CA
Todd Wellington, CGA
Valerie Poon
Veronica Bruce
Violet En
Vivek Dharap, CA·IT/CISA
Wendy Popowich, CA
Wing Lai Tam
Winnie Leung
Yien-Win Yip, CA
Ying Kuang

Reference

Glossary

This glossary explains key accounting terms and concepts in this report.

Accountability

Responsibility for the consequences of actions. In this report, *accountability* requires ministries, departments and other entities to:

- report their results (what they spent and what they achieved) and compare them to their goals
- explain any differences between their goals and results

Government accountability allows Albertans to decide whether the government is doing a good job. They can compare the costs and benefits of government action: what it spends, what it tries to do (goals), and what it actually does (results).

Accountability system

A system designed to ensure that the government is accountable for how it spends public money. The system requires the government to:

1. set measurable goals and responsibilities
2. plan the work to achieve the goals
3. do the work and monitor progress
4. report on results
5. evaluate results and provide feedback to refine or adjust plans

Accrual basis of accounting

A way of recording financial transactions that puts revenues and expenses in the period when they are earned and incurred.

Adverse auditor's opinion

An auditor's opinion that financial statements are not presented fairly and are not reliable.

Amortize

To reduce an amount of money to zero over a certain time.

Assurance

An auditor's written conclusion about something audited. Absolute assurance is impossible because of several factors, including the nature of judgment and testing, the inherent limitations of control, and the fact that much of the evidence available to an auditor is only persuasive, not conclusive.

Attest work, attest audit

Work an auditor does to express an opinion on the reliability of financial statements.

Audit

An auditor's examination and verification of evidence to determine the reliability of financial information, to evaluate compliance with laws, or to report on the adequacy of management systems, controls and practices.

Auditor

A person who examines systems and financial information.

Auditor's opinion

An auditor's written opinion on whether things audited meet the criteria that apply to them.

Auditor's report

An auditor's written communication on the results of an audit.

Business cases

An assessment a project's financial, social and economic impacts. A business case is a proposal that analyses the costs, benefits and risks associated with the proposed investment, including reasonable alternatives. The province has issued business case usage guidelines and a business case template that the Department can refer to in establishing its business case policy.

Capital asset A long-term asset.

Capitalize To charge an expense to a capital asset account rather than an expense account.

Capital planning A process to:

- identify the short- and long-term capital assets needed to carry out core businesses
- rank capital projects
- prepare business cases to support capital projects
- determine the cost and method of financing capital projects

COBIT Abbreviation for "Control Objectives for Information and Related Technology". COBIT was developed by the Information Systems Audit and Control Foundation and the IT Governance Institute. COBIT provides good practices for managing IT processes to meet the needs of enterprise management. It bridges the gaps between business risks, technical issues, control needs, and performance measurement requirements.

Core business The essential thing that a ministry does.

Corporate government accounting policy An accounting policy that the Department of Treasury Board requires ministries and departments to use in preparing their financial statements. Accounting policies include both the specific accounting principles an organization uses and the ways it applies the principles.

Criteria Reasonable and attainable standards of performance that auditors use to assess systems.

Cross-ministry The section of this report covering systems and problems that affect several ministries or the whole government.

Crown The Government of Alberta.

Deferred maintenance Any maintenance work not performed when it should be. Maintenance work should be performed when necessary to ensure capital assets provide acceptable service over their expected lives.

Domain A logical grouping of computers and devices on a network.

ERP Abbreviation for Enterprise Resource Planning. ERPs integrate and automate all data and processes of an organization into one comprehensive system. A typical ERP has multiple modules within a computer software application, standardized hardware, and a centralized database used by all modules to achieve this integration. Although an ERP can be as small as an accounting and payroll application, the term ERP is usually associated with larger systems that perform many functions within an organization. Examples of modules in an ERP, which formerly would have been stand-alone applications, include: Financials (General Ledger, Accounts Payable, and Accounts Receivable), Payroll, Human Resources, Purchasing and Supply Chain, Project Management, Asset Management, Student Administration Systems and Decision Support Systems. Some of the more common ERPs are PeopleSoft, SAP, Great Plains, and Oracle Applications.

Exception Something that does not meet the criteria it should meet—see "Auditor's opinion".

Expense The cost of a thing over a specific time.

GAAP	Abbreviation for "generally accepted accounting principles", which are established by the Canadian Institute of Chartered Accountants.
Governance	A process and structure that brings together capable people and relevant information to achieve goals. Governance defines an organization's accountability systems and ensures the effective use of public resources.
IMAGIS	Abbreviation for the government's Integrated Management Information System—a customized version of *PeopleSoft*. It is the main computer program that ministries use for financial and human resource information systems.
Internal audit	A group of auditors within a ministry (or an organization) that assesses and reports on the adequacy of the ministry's internal controls. The group reports its findings directly to the deputy minister. Internal auditors need an unrestricted scope to examine business strategies; internal control systems; compliance with policies, procedures, and legislation; economical and efficient use of resources; and the effectiveness of operations.
Internal control	A system designed to provide reasonable assurance that an organization will achieve its goals. Management is responsible for an effective internal control system in an organization, and the organization's governing body should ensure that the control system operates as intended. A control system is effective when the governing body and management have reasonable assurance that: • they understand the effectiveness and efficiency of operations • internal and external reporting is reliable • the organization is complying with laws, regulations, and internal policies
Management letter	Our letter to the management of an entity that we have audited. In the letter, we explain: 1. our work 2. our findings 3. our recommendation of what the entity should improve and how it should do so 4. the risks if the entity does not implement the recommendation We also ask the entity to explain specifically how and when it will implement the recommendation.
Material, materiality	Something important to decision-makers.
Misstatement	A misrepresentation of financial information due to mistake, fraud, or other irregularities.
Net realizable value	Estimated selling price in the ordinary course of business minus estimated costs of completion and sale.
Outcomes	The results an organization tries to achieve based on its goals.
Outputs	The goods and services an organization actually delivers to achieve outcomes. They show "how much" or "how many".
Performance measure	Indicator of progress in achieving a goal.
Performance reporting	Reporting on financial and non-financial performance compared to plans.
Performance target	The expected result for a performance measure.

Public sector accounting standards — Accounting principles, similar to GAAP, which apply to the public sector; established by the Public Sector Accounting Board.

Public sector comparator — A benchmark to assess the value for money of two different ways of constructing facilities and providing services: by traditional government methods and by a public-private partnership. The private sector partner may design, build, finance, operate, maintain, and own the facility. In a traditional government model, the government would do all these things. Public sector comparators are typically used in long-term and construction projects.

Qualified auditor's opinion — An auditor's opinion that things audited meet the criteria that apply to them, except for one or more specific areas—which cause the qualification.

Recommendation — A solution we—the Office of the Auditor General of Alberta—propose to improve the use of public resources or to improve performance reporting to Albertans.

Reservation of opinion — A generic term for an adverse auditor's opinion or a qualified auditor's opinion.

Risk — Anything that impairs an organization's ability to achieve its goals.

Risk management — Identifying and then minimizing or eliminating risk and its effects.

Server — Computer hardware and software that provides specialized services such as data storage, data processing or web hosting.

Shadow bid — A bid on a significant project that is a benchmark to ensure that the bids of eligible suppliers are reasonable. A project owner pays an expert to make a shadow bid estimating a reasonable amount for the project. By making the shadow bid, the expert becomes ineligible to bid on the project. A shadow bid is particularly important if there are no competing bids on a project.

Sole source contract — An agreement with just one supplier chosen without a competitive bidding process.

Specified auditing procedures — Actions an auditor performs to check certain qualities, such as reliability, of reported information that management asks the auditor to check. Specified auditing procedures are not extensive enough to allow the auditor to express an opinion on the information.

Systems (management) — A set of interrelated management control processes designed to achieve goals economically and efficiently.

Systems (accounting) — A set of interrelated accounting control processes for revenue, spending, the preservation or use of assets, and the determination of liabilities.

Systems audit — To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money.

Paragraphs (d) and (e) of subsection 19(2) of the *Auditor General Act* require us to report every case in which we observe that:

- an accounting system or management control system, including those designed to ensure economy and efficiency, was not in existence, or was inadequate or not complied with, or
- appropriate and reasonable procedures to measure and report on the effectiveness of programs were not established or complied with.

To meet this requirement, we do *systems audits*. First, we develop criteria (the standards) that a system or procedure should meet. We always discuss our proposed

	criteria with management and try to gain their agreement to them. Then we do our work to gather audit evidence. Next, we match our evidence to the criteria. If the audit evidence matches all the criteria, we conclude the system or procedure is operating properly. But if the evidence doesn't match all the criteria, we have an audit finding that leads us to recommend what the ministry must do to ensure that the system or procedure will meet all the criteria. For example, if we have 5 criteria and a system meets 3 of them, the 2 unmet criteria lead to the recommendation. A *systems audit* should not be confused with assessing systems with a view to relying on them in an audit of financial statements.
Unqualified auditor's opinion	An auditor's opinion that things audited meet the criteria that apply to them.
Value for money	The concept underlying a systems audit is *value for money*. It is the "bottom line" for the public sector, analogous to profit in the private sector. The greater the value added by a government program, the more effective it is. The fewer resources that are used to create that value, the more economical or efficient the program is. "Value" in this context means the impact that the program is intended to achieve or promote on conditions such as public health, highway safety, crime, or farm incomes. To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money.
Virus signatures	A unique string of bits, or the binary pattern, of a virus. The virus signature is like a fingerprint in that it can be used to detect and identify specific viruses. Anti-virus software uses the virus signature to scan for the presence of malicious code.

Other resources

The Canadian Institute of Chartered Accountants (CICA) produces a useful book called, *Terminology for Accountants*. They can be contacted at CICA, 277 Wellington Street West, Toronto, Ontario, Canada M5V 3H2 or www.cica.ca.

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